



AR18

Northern Electric Company, Limited
Annual Report 1973

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Northern Electric Company, Limited

1600 Dorchester Blvd., West
Montreal, Quebec, H3H 1R1

Subsidiaries (with percentage ownership)

Microsystems International Ltd. (68.48%)
Montreal, Que.

Nedco Ltd. (100%)
Montreal, Que.

Nevron Industries
Company Limited (100%)
Montreal, Que.

Northern Electric
Company (Ireland) Limited (100%)
Galway, Eire

Northern Telecom, Inc. (100%)
Boston, Mass.

Northern Electric
Telekomünikasyon, A.S. (51%)
Istanbul, Turkey

Affiliate Company

Bell-Northern Research Limited (49%)
Ottawa, Ont.

1974 Annual Meeting

The Annual Meeting of the
Shareholders will take place at 2 p.m.,
April 11, 1974 in the Ball Room of
Le Chateau Champlain, Montreal, Que.

Listing of Stock

Montreal Stock Exchange
Toronto Stock Exchange
Vancouver Stock Exchange

Transfer Offices

Company offices:
1050 Beaver Hall Hill, Montreal
10 King Street East, Toronto
Montreal Trust Company,
Halifax, Winnipeg, Regina, Calgary,
Vancouver

Registrar

Montreal Trust Company
Halifax, Montreal, Toronto, Winnipeg,
Regina, Calgary, Vancouver

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Cover

View of a parabolic antenna like those
forming part of long-distance transmission
systems used in satellite communications,
a field in which Northern Electric is a
leader.

No Securities Commission or similar authority in Canada has in any way passed upon the merits of the securities offered hereunder and any representation to the contrary is an offense.

New Issue



(Incorporated under the laws of Canada)

2,600,000 Common Shares

(without nominal or par value)

The common shares offered by this prospectus are authorized but unissued shares being acquired from the Company.

There is no market for the common shares of the Company. The offering price of the shares was determined by negotiation between the Company and the underwriters. Purchasers will not be entitled to the quarterly dividend payable to shareholders of record November 22, 1973.

These common shares will qualify as investments for certain financial institutions. Reference is made to "Eligibility for Investment" on page 14.

Application has been made to list these shares on the Montreal, Toronto and Vancouver Stock Exchanges. Acceptance of the listings will be subject to the filing of required documents and evidence of satisfactory distribution, both within a period of 90 days.

Price: \$15.00 per share

	<u>Price to Public</u>	<u>Underwriting Commission</u>	<u>Proceeds to the Company*</u>
Per share	\$15.00	\$0.84	\$14.16
Total	\$39,000,000	\$2,184,000	\$36,816,000

*Before deduction of expenses of issue estimated not to exceed \$150,000.

We, as principals, conditionally offer these common shares, subject to prior sale, if, as and when issued by the Company and accepted by us in accordance with the conditions contained in the agreement described under "Plan of Distribution" on page 14 and subject to the approval of all legal matters on behalf of the Company by Messrs. Ogilvy, Cope, Porteous, Hansard, Marler, Montgomery & Renault and on our behalf by Messrs. Doheny, Day, Mackenzie, Grivakes, Gervais & LeMoyne.

Subscriptions will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that share certificates in definitive form will be available for delivery on or before December 18, 1973.

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PURCHASER'S STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION

Sections 64 and 65 of The Securities Act (Alberta), sections 70 and 71 of The Securities Act, 1967 (Saskatchewan), sections 63 and 64 of The Securities Act (Manitoba) and sections 64 and 65 of The Securities Act (Ontario) provide, in effect, that where a security is offered to the public in the course of primary distribution:

- (a) a purchaser will not be bound by a contract for the purchase of such security if written or telegraphic notice of his intention not to be bound is received by the vendor or his agent not later than midnight on the second business day after the prospectus or amended prospectus offering such security is received or is deemed to be received by him or his agent, and
- (b) a purchaser has the right to rescind a contract for the purchase of such security, while still the owner thereof, if the prospectus or any amended prospectus offering such security contains an untrue statement of a material fact or omits to state a material fact necessary in order to make any statement therein not misleading in the light of the circumstances in which it was made, but no action to enforce this right can be commenced by a purchaser after the expiration of 90 days from the later of the date of such contract or the date on which such prospectus or amended prospectus is received or is deemed to be received by him or his agent.

Sections 61 and 62 of the Securities Act, 1967 (British Columbia) provide, in effect, that where a security is offered to the public in the course of primary distribution:

- (a) a purchaser has a right to rescind a contract for the purchase of such security, while still the owner thereof, if a copy of the last prospectus, together with financial statements and reports and summaries of reports relating to the securities as filed with the British Columbia Securities Commission, was not delivered to him or his agent prior to delivery to either of them of the written confirmation of the sale of the securities. Written notice of intention to commence an action for rescission must be served on the person who contracted to sell within 60 days of the date of delivery of the written confirmation, but no action shall be commenced after the expiration of three months from the date of service of such notice, and
- (b) a purchaser has the right to rescind a contract for the purchase of such security, while still the owner thereof, if the prospectus or any amended prospectus offering such security contains an untrue statement of a material fact or omits to state a material fact necessary in order to make any statement therein not misleading in the light of the circumstances in which it was made, but no action to enforce this right can be commenced by a purchaser after the expiration of 90 days from the later of the date of such contract or the date on which such prospectus or amended prospectus is received or is deemed to be received by him or his agent.

Reference is made to the aforesaid Acts for the complete texts of the provisions under which the foregoing rights are conferred and the foregoing summary is subject to the express provisions thereof.

THE COMPANY

Northern Electric Company, Limited (the "Company" or "Northern Electric") was incorporated under the laws of Canada by letters patent dated January 5, 1914. Supplementary letters patent have been issued to the Company from time to time including those dated October 24, 1973 increasing its authorized share capital and subdividing its common shares on a 13 for 1 basis. The Company is a subsidiary of Bell Canada and after the completion of this offering, 90.1% of its common shares will be held by Bell Canada.

The Company's head and principal office is at 1600 Dorchester Boulevard, West, Montreal, Québec.

Northern Electric manufactures a broad line of telecommunications equipment for sale throughout the world, primarily to the telephone industry. Operations of subsidiaries include the distribution of a wide range of electrical and industrial products and the manufacture of integrated circuits and other semiconductors. Consolidated sales and net earnings for the year ended December 31, 1972 were \$534 million and \$20 million respectively. In 1972, about 58% of consolidated sales were to Bell Canada.

CONSOLIDATED CAPITALIZATION

	<u>Authorized</u>	<u>Outstanding September 30, 1973</u>	<u>Outstanding October 15, 1973</u>	<u>Outstanding October 15, 1973 after giving effect to this financing</u>
	\$	\$	\$	\$
CAPITAL STOCK				
Northern Electric				
Common shares of no par value (1)	225,000,000	113,975,000	113,975,000	152,975,000
	(39,000,000 shs.)	(23,562,500 shs.)	(23,562,500 shs.)	(26,162,500 shs.)
LONG TERM DEBT				
Northern Electric				
4¾ % Sinking Fund Debentures due November 1, 1976 (2)	20,000,000	6,893,000	6,893,000	6,893,000
5¾ % Sinking Fund Debentures, 1962 Series due December 15, 1982 (2)	20,000,000	12,915,000	12,915,000	12,915,000
6½ % Sinking Fund Debentures, Series C due April 15, 1986 (2) .	15,000,000	11,264,000	11,264,000	11,264,000
9¾ % Sinking Fund Debentures, Series D due April 30, 1990 (2) .	40,000,000	36,400,000	36,400,000	36,400,000
Sundry	—	6,375,000	6,375,000	6,375,000
MINORITY INTEREST IN SUBSIDIARY COMPANIES (3) . . .				
	—	5,090,000	5,090,000	5,090,000

- (1) Gives effect to the increase in authorized capital and the subdivision of common shares on a 13 for 1 basis on October 24, 1973.
- (2) Reflects increase in interest rate effective November 1, 1973 of ¼ of 1% per annum as a result of trust agreement amendments on October 5, 1973.
- (3) See "Options to Purchase Securities" on page 15.
- (4) In addition to its paid-up share capital the Company had consolidated retained earnings and contributed surplus aggregating \$89,725,000 as at September 30, 1973.
- (5) See note 10 to financial statements on page 22 for material contractual obligations under long term property leases.

THE TELECOMMUNICATIONS EQUIPMENT INDUSTRY

The markets served by the telecommunications equipment industry encompass virtually all forms of sound, image and data transmission. In its most common form, telecommunications involves the use of telephone circuits including the familiar telephone set and telephone wire, microwave radio and satellites.

The world telecommunications equipment industry was founded in North America and today most major international manufacturers rely in part on patents and technical developments which originally came from Western Electric Company, Incorporated ("Western Electric"), the manufacturing arm of The American Telephone and Telegraph Company and associated companies (the "U.S. Bell System"). Northern Electric shares in this common heritage.

Equipment

Telecommunications equipment can be grouped in five broad categories and all such equipment must be compatible to work together in a given system:

(1) Subscriber Apparatus:

Subscriber apparatus is the equipment used on the subscriber's premises and consists mainly of telephone sets and peripheral devices such as speaker units, electronic answering equipment and automatic dialers. It generally involves shorter and less costly development cycles than other categories of telecommunications equipment. The manufacturing process is one of mass production with annual output of component parts typically measured in the hundreds of thousands. Deliveries are made off-the-shelf or within a month or two of the date of order.

(2) Business Communications Systems:

This category of equipment encompasses private automatic branch exchanges, switching equipment for key telephone sets and equipment for data communications. The technology employed in the latest equipment is highly sophisticated, with recent developments leading to the widespread use of microcircuits.

(3) Central Office Switching Equipment:

Switching equipment is used in telephone exchanges to connect both local and long-distance calls. The latest generation of switching equipment uses computer control techniques and electronic circuitry. Earlier types of equipment, still in large scale production, primarily employ electromechanical components. The development cycle of electronic switching equipment covers several years with expenditures of tens of millions of dollars. Lead time from customer order to initial operation of an exchange is usually from one to two years. Individual sales range up to several million dollars and subsequent expansions of an exchange usually involve the purchase of additional millions of dollars of equipment from the same manufacturer over a period of years.

(4) Wire and Cable:

The manufacture of wire and cable requires heavy capital expenditures in processing equipment and expertise in design. The production process involves converting copper and other materials into conductor cable ranging from a single wire to several thousand wires in one sheath. With the exception of sophisticated products such as high circuit capacity coaxial cable, sales involve short lead times with delivery normally counted in days from date of order. Included in this category are various products used in the installation and connection of wire and cable, such as terminals, protectors, connectors and related items.

(5) Transmission Equipment:

This equipment carries telecommunications traffic between central exchanges. It includes microwave radio circuits, satellite systems and electronic equipment used with cables. The development of transmission equipment usually involves heavy expenditures and long lead times for major new systems.

Markets

The principal purchasers of the five broad categories of equipment described above are telephone operating companies. World-wide, exclusive of The People's Republic of China, it is estimated that by the end of 1973 some 330 million telephones will be connected to various telephone systems with approximately 20 million telephones being added each year. Expenditures on telephone sets represent a small part of the overall annual capital expenditures by telephone operating companies. Industry statistics show that in Canada in 1971 telephone companies spent more than \$1,500 for each new telephone added. While this amount includes the cost of buildings, vehicles and other items, the bulk of the expenditures relates to telecommunications equipment.

Canadian Market

The primary market in Canada for telecommunications equipment consists of 1,400 operating telephone companies connecting about 11 million telephones. There are four major market segments:

	<u>Approximate Percentage of Total Telephones</u>
Bell Canada	62%
Subsidiaries and associated companies of Bell Canada	8%
General Telephone and Electronics Corporation associated companies (including British Columbia Telephone Company and Québec-Téléphone)	12%
Other (mainly in the Prairie Provinces)	18%

In 1972, more than 700,000 telephones were added to the Canadian network and in the five year period ended December 31, 1971 the number of telephones in Canada increased from 7.9 million to 10.3 million. Spending by telephone companies rose at a faster rate than the increase in number of telephones, as evidenced by construction and equipment expenditures of \$489 million in 1966 and \$816 million in 1971.

United States Market

The primary market in the United States consists of 1,800 operating telephone companies connecting about 138 million telephones. It consists of four major market segments:

	<u>Approximate Percentage of Total Telephones</u>
U.S. Bell System	83%
Independents	
General Telephone and Electronics Corporation associated companies	8%
Major independent companies (in excess of 100,000 telephones each)	6%
Smaller independent companies	3%

Companies independent of the U.S. Bell System operate 24 million telephones and represent a market more than twice the size of the entire Canadian market. The market most open to competitive penetration is found among these companies.

In 1972, over 6 million telephones were added to the United States network, of which 1.2 million were added by companies outside the U.S. Bell System. Between 1966 and 1971, the number of telephones in service in the United States increased from 99 million to 126 million. Here again, gross annual construction expenditures by telephone companies have shown a significantly faster rate of growth, increasing from \$5,340 million in 1966 to \$9,458 million in 1971. Construction expenditures by the independent telephone companies increased from \$1,147 million in 1966 to \$1,858 million in 1971 and are estimated at \$2,500 million in 1973. The 1973 expenditures of these companies will exceed those of the U.S. Bell System 15 years ago.

Offshore Markets

Markets outside North America include telecommunications systems, owned primarily by governments, operating 180 million telephones. There are three major segments to this market with Europe representing 63%, Japan 20%, and other countries 17%.

The potential growth of these markets in terms of telephones is considered higher than in North America due to their much lower telephone densities.

	<u>Telephones/100 Population</u>	
	1960	1971
Canada	32.0	47.4
United States	40.8	60.1
Europe	7.4	14.8
Japan	5.9	28.2

European governments are rapidly escalating spending on telephone systems. However, access to these markets presents problems to North American manufacturers because of government purchasing policies and equipment incompatibility. The Japanese market is one of the most rapidly growing in the world, but government policies restrict the access of non-domestic suppliers.

Secondary Markets

In addition to the telephone markets referred to above, there is an important secondary market made up of government organizations, transportation companies, and companies operating other forms of communications networks. Furthermore, a substantial private demand exists for branch exchanges, telephone sets and other equipment. In much of Europe a market for private equipment has existed for many years. The subscriber apparatus and business communication systems markets have not, therefore, been as tightly closed to competition as have the main central office switching and transmission businesses.

Competition

Competitors in the telecommunications equipment market are numerous and vary from the very small, highly specialized manufacturers to large multinational companies.

Most of the major telecommunications equipment suppliers in the world compete for Bell Canada's business as well as that of the rest of the Canadian telephone network. Northern Electric sells to all segments of the Canadian operating telephone companies market and believes that it has in excess of 70% of this market. Major competitors include subsidiaries of General Telephone and Electronics Corporation ("GTE") and International Telephone and Telegraph Corporation ("ITT") which manufacture and market telecommunications equipment in Canada.

In the United States, the largest manufacturer, Western Electric, sells almost exclusively to the U.S. Bell System and government agencies. The independent telephone operating company market is served, in part, by GTE Automatic Electric Inc. (a subsidiary of GTE), North Electric Company (a subsidiary of United Telecommunications, Inc.) and Superior Continental Corp. (a subsidiary of Continental Telephone Corporation). Major suppliers not controlled by telephone companies include Stromberg-Carlson Corporation and manufacturing affiliates of ITT. Northern Electric sells to all segments of the United States market including the U.S. Bell System.

Northern Electric is one of the three largest North American manufacturers of telecommunications equipment. The Company and Western Electric are the only North American manufacturers with substantial production and development in all five equipment categories previously described.

Foreign manufacturers, particularly Japanese, compete actively in certain equipment categories. Lack of equipment compatibility limits the penetration into the North American market by European manufacturers.

In Europe, the major manufacturers are the Plessey and GEC/AEI groups of the United Kingdom, Philips Industries, N.V. of Holland, L. M. Ericsson Telephone Company of Sweden, Siemens A. G. of West Germany and other national and European-based international companies. Subsidiaries of ITT and GTE have established positions in the market, while Northern Electric, other North American manufacturers and Japanese manufacturers are intensifying their efforts to obtain a share of this market.

The Nippon Electric, Oki, Hitachi and Fujitsu groups, the major Japanese manufacturers, with their strong domestic base, not only effectively dominate their own market but compete aggressively around the world.

BUSINESS OF THE COMPANY AND ITS SUBSIDIARIES

History and Development

Northern Electric was incorporated in 1914 as a subsidiary of Bell Canada and as the Canadian affiliate of Western Electric to service the manufacturing requirements of Bell Canada. Prior to 1956, Northern Electric was

owned to the extent of 44% by Western Electric and 56% by Bell Canada. Following a court judgement in the United States, Western Electric disposed of its interest in the Company and by 1962 Bell Canada had become the sole owner of Northern Electric's capital stock.

Before 1958, most of the designs and much of the technology employed by the Company came from Western Electric. In 1958 Northern Electric established a separate research and development organization to develop new products, thus beginning a process which over the intervening years has made the Company largely self-sufficient in design and technology. The establishment of this research and development organization was a turning point in Northern Electric's evolution. The Company, however, has continuing rights to use all Western Electric's existing patented inventions and certain technical information and is presently negotiating for rights to use future patented inventions.

Concurrently with its research and development activity which enabled it to design equipment suited to the different technical specifications of the overseas market, the Company during the 1960's obtained international business in the face of severe competition. Although losses were incurred in earlier years, offshore activities are now profitable. During the last three years offshore selling has been mainly directed at selected markets to consolidate market positions gained through prior sales. One of the Company's early overseas contracts led to the establishment in 1967, jointly with the Government of the Republic of Turkey, of a subsidiary to manufacture and supply switching equipment, associated power supplies and telephone sets for the modernization of Turkey's communications system. In 1972 the Company signed a five year contract for the supply to Turkey of \$36 million of Canadian telecommunications products and services.

As part of its approach to the European Economic Community market, the Company in April 1973, incorporated Northern Electric Company (Ireland) Limited ("N.E. Ireland") to manufacture telephone equipment. The Company anticipates locating additional plants in Europe. Plessey Telecommunications Limited of England has been licensed by Northern Electric to manufacture and sell certain subscriber products in the United Kingdom and other countries.

Until 1971, the Company sold into the United States market mainly on a project basis not involving any continuing market share. In that year, the Company incorporated Northern Telecom, Inc. ("NTI") to manufacture and distribute telecommunications equipment in the United States. NTI has made significant progress in obtaining a share of the United States market. Sales in 1972 were \$27 million and, based on sales to date and orders on hand, NTI projects sales for 1973 of \$50 million. As part of the Company's expansion into the United States, a manufacturing plant was established in 1972 and two more are scheduled to be in production by early 1974. In 1973, NTI acquired Northeast Electronics Corporation ("Northeast") of Concord, New Hampshire, a manufacturer of electronic transmission test equipment and automatic testing systems for the communications industry. NTI is seeking further acquisitions.

Realigned Operations

To consolidate the research efforts of the Company and those of Bell Canada, Bell-Northern Research Ltd. ("BNR") commenced operations in 1971. With a staff of 1500 employees, including 600 engineers and scientists, and currently spending about \$40 million annually, it is the largest industrial research and development organization in Canada and ranks among the largest in North America. BNR carries out research, design, development, long-range planning and systems engineering in all fields of telecommunications. The Company owns 49% of BNR and 51% is held by Bell Canada.

In order to provide public identification and to better define business direction, the operations of a former division of the Company were transferred to Nedco Ltd. ("NEDCO"), a wholly-owned subsidiary incorporated in 1972. NEDCO is a major distributor of electrical and industrial products in Canada. Recently, NEDCO acquired control of Zenith Electric Supply Limited, a company in the same field whose sales for the nine months to

September 30, 1973 were \$16,300,000. NEDCO's sales for the nine months ended September 30, 1973 were \$80,800,000.

In 1969, Microsystems International Limited ("Microsystems") was formed to develop and manufacture semiconductor products including integrated circuits. It has expanded operations to include sales and marketing subsidiaries in the United States and West Germany. Another subsidiary in Penang, Malaysia, operates an assembly plant. Sales for the nine months ended September 30, 1973 were \$15,700,000.

Products

Products manufactured by Northern Electric may be summarized by major industrial categories as follows: (photographs of certain of the Company's products appear on page 23)

(1) Subscriber Apparatus:

Northern Electric manufactures telephone sets, compatible with North American telephone systems and networks, in many types and sizes to suit virtually any application. Dial telephones, key telephone sets, push-button telephones that can also serve as computer in-put devices, CONTEMPRA* telephones, and CENTURION* coin telephones are manufactured with an emphasis on customer requirements, flexibility and low maintenance costs. The LOGIC* unit, a new concept in telephone and data sets, provides plug-in facilities for accessories such as loud-speaking units and electronic answering equipment. COMPANION* handsfree units, introduced in 1973, are designed for both the residence and business markets.

(2) Business Communications Systems:

The Company manufactures business communications equipment including data systems, key telephone systems, intercom systems, cordless switchboards, manual or private automatic branch exchanges (PABX) and other specifically designed instruments. The key telephone systems, such as the SK-1 are designed for the small business. Other key telephone systems are designed to meet larger requirements. A PULSE* fully electronic private automatic branch exchange of a compact and modular design was successfully introduced in 1972. Based on sales to date and orders on hand, 1973 PULSE PABX sales will be about \$10 million of which more than half will be in the United States market. With the provision of additional facilities, the manufacture of this product is projected to be tripled in 1974.

(3) Central Office Switching Equipment:

The Company manufactures a wide range of central office switching equipment. Step-by-step electromechanical systems are manufactured to supply extensions of systems installed as far back as the 1920's. Northern Electric also supplies modern crossbar systems, first introduced in 1954, for both extensions and new requirements. In recent years, to provide greater flexibility at less cost to the user, Northern Electric developed the SP-1 family of stored program computer controlled electronic switching systems. The first SP-1 electronic switching system was put into commercial service in late 1971. The Company's delivery schedule calls for the installation of the seventeenth such system by the end of 1973. The total value of SP-1 orders received is in excess of \$100 million, with a significant portion from telephone operating companies in the United States.

(4) Wire and Cable:

Wire and cable is produced for the electrical power industry as well as telephone operating companies and ranges from telephone wires to high capacity communications transmission cable. The Company operates its own rod rolling mill. Power cables, composite coaxial cables, switchboard cables, pulp-insulated exchange cables and polyethylene insulated cables are manufactured in a large number of sizes to suit various requirements. Grouped in this category are products manufactured for use in the installation and connection of wire and cable including terminals and closures, loading devices, protectors, heat coils, backboards and cases.

*Trademark

(5) Transmission Equipment:

Northern Electric produces a broad line of high performance transmission systems, including multiplex, microwave radio, cable carrier and line equipment. Northern Electric's MA-5 multiplexer combines up to 2700 voice channels on a single transmission path. The Company's new RA-3 microwave radio family of six models for long-haul, heavy route microwave systems is an important product. One of the first substantial RA-3 orders was received from Western Union Telegraph Company for installation in 1974 in the United States. In September 1973, Northern Electric was awarded a contract by The Alberta Government Telephones Commission for a 220 mile RA-3 microwave radio system to be delivered in mid-1974. Northern Electric's LD-4 digital coaxial cable carrier system provides 20,000 two-way voice channels on a 12-tube coaxial cable. The first major LD-4 system is now being installed for the new, high capacity Montreal-Ottawa-Toronto communications link.

The Company, using experience gained in the design of ground tracking stations and satellite studies, has become associated with a number of space projects. Northern Electric supplied communications equipment for the international INTELSAT IV series of satellites and for the ANIK Canadian domestic satellite. Equipment orders, including four communications platforms for Western Union Telegraph Company and another three for American Satellite Corporation, have been received for United States domestic satellite systems.

In the year ended December 31, 1972, consolidated sales of the Company's products in the above five categories amounted to \$420 million, with no individual category amounting to less than \$35 million. In the opinion of management, the Company's products are as technologically advanced as those of its competitors and it has a lead in the development of several applications of modern technology.

Bell Canada Agreements

As of November 3, 1939, the Company entered into a Supply Agreement with Bell Canada under which the Company agreed to sell to Bell Canada telecommunications and other equipment and services. The Agreement, as amended, remains in force until terminated by mutual consent or by one year's notice by either party. The Agreement provides for an annual review of prices. Pursuant to the Agreement, Bell Canada had on order at September 30, 1973, from the Company for future delivery, equipment, materials and services with a total sales value of approximately \$178,000,000.

Bell Canada has a Service Contract with The American Telephone and Telegraph Company ("AT&T") under which Bell Canada is entitled to use, for a consideration, certain devices, methods and systems for its telecommunications business which are covered by Canadian patents owned or controlled by AT&T and its subsidiaries. The parties have agreed to terminate the Service Contract. Northern Electric's rights to existing patented inventions of Western Electric and AT&T (Western Electric is a subsidiary of AT&T) and to certain of Western Electric's technical information will not, in the opinion of management, be affected by this termination. In addition, the Company's negotiations for licenses under future patented inventions of Western Electric and AT&T, are not expected to be prejudiced.

Property

The Company operates 20 plants and warehouses in 7 provinces of Canada, occupying over 5 million square feet of space, of which approximately 1.2 million square feet are leased. As additions and replacements for older facilities, four new Company owned plants are being established in Canada, totalling 540,000 square feet.

NEDCO and its subsidiary, Zenith Electric Supply Limited, operate 45 warehouses and sales offices across Canada, occupying over 790,000 square feet of space of which approximately 640,000 square feet are leased. NTI, BNR, Microsystems and the Company's subsidiaries in Turkey and Ireland have 10 plants or laboratories occupying in excess of 800,000 square feet of space of which 630,000 square feet are owned and the balance leased. Two new plants are being established in the United States with expansions underway at two other locations.

Industrial Relations

Approximately 65% of the more than 22,000 employees of the Company and its subsidiaries are represented by unions. Following a series of strikes in the months of May, June and July 1973 by office and plant workers in Canada, settlements were reached which permitted a resumption of operations late in July 1973. The Company's principal labour contracts expire in 1976.

MAJOR SUBSIDIARIES

Northern Telecom, Inc.

NTI, a wholly owned subsidiary with its head office in Boston, Massachusetts, was formed in 1971 to manufacture and market telecommunications equipment in the United States. NTI handles all five major product categories referred to previously and is one of the few companies selling such an extensive and varied product line in the United States. NTI operates a telephone apparatus assembly plant at Port Huron, Michigan, which is currently being expanded. New manufacturing facilities are being established at Butner, North Carolina and Mountain View, California for production, in early 1974, of electronic switching systems, private automatic branch exchanges and other telecommunications products. Capital expenditures related to these new facilities are expected to amount to \$4.8 million. NTI has sales offices in New York, Florida, Texas, Illinois and California and a warehouse in Ohio.

Northeast Electronics Corporation, acquired by NTI in 1973, manufactures general-purpose transmission test equipment and automatic testing systems for the telecommunications industry. To provide additional capacity a new plant with an estimated cost of \$1,000,000 is being built at Concord, New Hampshire.

Nedco Ltd.

NEDCO and its subsidiaries are engaged in the national distribution of electrical and industrial products with 1,000 employees located in sales offices and warehouses in 41 Canadian cities. They distribute more than 15,000 industrial and electrical products purchased from over 200 manufacturers, with Northern Electric supplying less than 20% of such purchases. In 1972, NEDCO eliminated many unprofitable product lines and while this action resulted in a decrease in sales, it contributed to an increase in earnings. The product base is now being expanded with new higher margin lines.

Pursuant to an offer made in August 1973, NEDCO has acquired, at \$3.25 per share, over 94% of the 1,273,254 outstanding shares of Zenith Electric Supply Limited, a Toronto based electrical and electronic wholesale distributor with 11 branches in Ontario.

Microsystems International Limited

Microsystems manufactures semiconductors including integrated circuits and similar products for the computer and telecommunications industries. Its principal production facility is located near Ottawa.

In 1970, Microsystems issued to the public 2,000,000 common shares of its capital stock. At September 30, 1973, Northern Electric owned 59.5% of Microsystems' 5,127,859 outstanding common shares, and is committed to purchase, by December 31, 1973, an additional 1,500,000 common shares at a price of \$10 per share which will bring Northern Electric's ownership to 68.6%. As of September 30, 1973, Northern Electric had advanced to Microsystems \$10,000,000 in respect of this commitment.

From inception in 1969 to September 30, 1973, Microsystems has incurred losses of \$26,195,000. Of this amount, \$3,628,000 represents a loss for the nine months ended September 30, 1973.

Northern Electric Telekomunikasyon, A.S.

In 1967, Northern Electric, jointly with the Post Telegraph and Telephone Administration of the Republic of Turkey, ("PTT") incorporated Northern Electric Telekomunikasyon, A.S. ("NETAS") as a manufacturing company in the Republic of Turkey. The NETAS plant produces switching equipment, associated power supplies and switchboards, and telephone sets. NETAS is 51% owned by Northern Electric, with PTT owning 49%.

Northern Electric Company (Ireland) Limited

N.E. Ireland, a wholly-owned subsidiary, was incorporated in 1973 to manufacture products associated with telephone station equipment and electronic private automatic branch exchanges, components and sub-assemblies in Galway, Ireland. Production commenced in September 1973.

Nevron Industries Company Limited

Nevron Industries Company Limited, a wholly-owned Canadian subsidiary, with capital of \$5,000,000 was formed in 1972 to make investments of the type generally designated as venture capital situations.

MANAGEMENT

Directors and Officers

The names, home addresses, positions held with Northern Electric, and principal occupations of the directors and officers are set forth below.

<u>Name and Address</u>	<u>Position Held</u>	<u>Principal Occupation</u>
EWART ORVILLE BRIDGES 2 Breton Woods, Beaconsfield, Québec.	Director, Executive Vice-President, Switching and Transmission	Executive, Northern Electric
ALBERT JEAN DE GRANDPRÉ, Q.C. 1115 Sherbrooke Street West, Montreal, Québec.	Director	President, Bell Canada
GEORGES DE LERY DEMERS, Q.C. 236 Marie Victorin Street, St. Nicolas, Québec.	Director	President, Sterling Securities Corporation
JAMES DOUGLAS GIBSON, O.B.E. 406 Glenayr Road, Toronto, Ontario.	Director	Economic Consultant
ROBERT ST. CLAIR HURLBUT 18 Sandfield Road, Don Mills, Ontario.	Director	Chairman of the Board and President, General Foods Limited
HERBERT HAYMAN LANK 168 Edgehill Road, Westmount, Québec.	Director	Director, Du Pont of Canada Limited
WALTER FREDERICK LIGHT 5 Normandy Drive, Town of Mount Royal, Québec.	Director	Executive Vice-President, Bell Canada
JOHN CUNNINGHAM LOBB 1115 Sherbrooke Street West, Montreal, Québec.	Director, President and Chief Executive Officer	Executive, Northern Electric
VERNON OSWALD MARQUEZ 2890 Ste. Angélique Road, St. Lazare, Québec.	Director	Consultant, Northern Electric
CHARLES GORDON MILLAR 3511 Ponytrail Drive, Mississauga, Ontario.	Director, Executive Vice-President, Operations	Executive, Northern Electric
JOHN ANGUS OGILVY, Q.C. 1321 Sherbrooke Street West, Montreal, Québec.	Director	Senior Partner, Ogilvy, Cope, Porteous, Hansard, Marler, Montgomery & Renault
CHARLES PERRAULT 11355 James Morrice Street, Montreal, Québec.	Director	President, Conseil du Patronat du Québec

<u>Name and Address</u>	<u>Position Held</u>	<u>Principal Occupation</u>
GÉRARD PLOURDE 6065 de Vimy Avenue, Montreal, Québec.	Director	Chairman of the Board and Chief Executive Officer, UAP Inc.
ROBERT CARLTON SCRIVENER 1321 Sherbrooke Street West, Montreal, Québec.	Director and Chairman of the Board	Chairman of the Board and Chief Executive Officer, Bell Canada
JAMES CARDEN THACKRAY 1 Harper Gardens, Toronto, Ontario.	Director	Executive Vice-President, Bell Canada
WILLIAM MAURICE YOUNG 2376 Southwest Marine Drive, Vancouver, B.C.	Director	Chairman of the Board and Chief Executive Officer, Finning Tractor & Equipment Co. Ltd.
CLARENCE ARTHUR ANDERSON 80 Leland Road, London, Ontario.	Vice-President and Product Line Manager, Subscriber Equipment	Executive, Northern Electric
QUENTIN BALL 112 Forest Street, Wellesley Hills, Mass.	Vice-President	Executive Vice-President, Northern Telecom, Inc.
WALTER CLARK BENDER 642 Murray Hill, Westmount, Québec.	Vice-President Technology	Executive, Northern Electric
GASTON ROBERT BOYER 380 Olivier Avenue, Westmount, Québec.	Vice-President Administration	Executive, Northern Electric
DAVID ARTHUR CLIMAN 1115 Sherbrooke Street West, Montreal, Québec.	Vice-President Finance	Executive, Northern Electric
ROY THOMAS COTTIER 337 Metcalfe Avenue, Westmount, Québec.	Vice-President Corporate Relations	Executive, Northern Electric
RICHARD FRANCIS DOYLE 295 Pinetree Crescent, Beaconsfield, Québec.	Executive Vice-President Finance	Executive, Northern Electric
RICHARD ALPHONSE FORTIER 2005 Melba Street, Saint Bruno-de-Montarville, Québec.	Vice-President Industrial Relations	Executive, Northern Electric
WILLIAM LEONARD GLASSPOOLE 135 Ivanhoe Crescent, Pointe Claire, Québec.	Vice-President — Controller ...	Executive, Northern Electric
WALTER RITCHIE JOHNSTON 410 Caledonia Avenue, Dorval, Québec.	Executive Vice-President, Station and Business Communications	Executive, Northern Electric
WILLIAM JOHN PARDY 7 Waverly Avenue, Pointe Claire, Québec	Vice-President and General ... Manager, Cable	Executive, Northern Electric
JOYCE ANN BORDEN REED 60 Melbourne Avenue, Town of Mount Royal, Québec.	Corporate Secretary and Counsel	Executive, Northern Electric

<u>Name and Address</u>	<u>Position Held</u>	<u>Principal Occupation</u>
BRUCE SUTHERLAND RUSSEL 564 Lansdowne Avenue, Westmount, Québec.	Treasurer	Executive, Northern Electric
WILLIAM TYRIE SIMPSON 379 Berkeley Circle, Dorval, Québec.	Vice-President Transmission	Executive, Northern Electric
WILLIAM ALLIN THOMPSON 455 Lakeshore Road, Beaconsfield, Québec.	Vice-President Manufacturing	Executive, Northern Electric
ELLIOTT TURCOT 1569 Truscott Drive, Clarkson, Ontario.	Vice-President Switching	Executive, Northern Electric
JACQUES PHILIPPE VILLENEUVE 12 Beloeil Avenue, Outremont, Québec.	Vice-President Personnel	Executive, Northern Electric
KENNETH HAROLD WOODLEY 30 Rockwood Drive, Dollard-des-Ormeaux, Québec.	Executive Vice-President, Cable and Outside Plant	Executive, Northern Electric

The directors and officers of Northern Electric who have not held their present business affiliations for the past five years are as follows: Mr. E. O. Bridges was Executive Vice-President, ITT Latin America Inc., and Vice-President, ITT Telecommunications, a subsidiary and division respectively of ITT, before joining Northern Electric in June 1969; Mr. J. C. Lobb was Executive Vice-President of ITT, President and Chief Executive Officer of Crucible Steel Corporation (now Crucible Inc., a wholly owned subsidiary of Colt Industries Inc.), a partner of Donaldson, Lufkin & Jenrette, Inc. (a New York investment banking firm), and assumed the position of President of Northern Electric in June 1971; Mr. C. Perrault was President of Casavant Frères Ltée, before becoming President of the Conseil du Patronat du Québec in January 1969; Mr. D. A. Climan was Director, International Finance, and Vice-President, International Operations, International Division of Allied Chemical Corporation, before joining Northern Electric in July 1973; Mr. R. T. Cottier was Vice-President and Director of Public Relations of Massey-Ferguson Inc., Director, Corporate Relations of Molson Industries Limited, and Vice-President, New Enterprises Group of W. R. Grace & Company, prior to joining Northern Electric in September 1973; Mr. R. F. Doyle was Senior Vice-President and a Director of Allied Products Corporation, before joining Northern Electric in November 1972; Mr. R. A. Fortier was Industrial Relations Manager at Aluminum Company of Canada, Limited, President of the Pulp & Paper Industrial Relations Council, prior to joining Northern Electric in November 1972; Mr. J. P. Villeneuve was Corporate Vice-President, Personnel, of Marine Industries Limited, President and General Manager of Volcano Limited, prior to joining Northern Electric in July 1973.

Remuneration of Directors and Senior Officers

The aggregate direct remuneration paid or payable by Northern Electric and its subsidiaries to directors and senior officers of Northern Electric for the year ended December 31, 1972 was \$1,128,000, and for the ten months ended October 31, 1973 was \$1,188,000. The estimated cost to the Company and its subsidiaries in the last completed financial year of all pension benefits, including deferred compensation, proposed to be paid in the aggregate in the event of retirement at normal retirement age, directly or indirectly, by the Company or its subsidiaries to the directors and senior officers of the Company, was \$115,000. No pension benefits are proposed to be paid by the Company to any director who is not also an officer of the Company.

In 1972, the Company established an incentive remuneration plan to grant awards to officers and employees who are considered to have made an outstanding contribution to the success of the Company. Grants under this plan must be approved by the Board of Directors. For the year 1972, the Board approved awards amounting to \$373,000 for senior officers of the Company. Of this amount, \$69,000 has been paid through October 31, 1973. It is proposed that the balance together with an interest factor be paid in the future in accordance with the terms of the plan which provide for nonpayment under certain specified conditions. No awards have been approved as yet by the Board for 1973.

PRINCIPAL HOLDER OF SECURITIES

The following table sets forth the ownership, beneficially and of record, of the equity shares of Northern Electric as at October 15, 1973 after giving effect to the 13 for 1 subdivision of common shares on October 24, 1973:

<u>Name and Address</u>	<u>Designation of class</u>	<u>Type of ownership</u>	<u>Number of shares owned</u>	<u>Percentage of shares owned before this offering</u>	<u>Percentage of shares owned after this offering</u>
Bell Canada, 1050 Beaver Hall Hill, Montreal, Québec	Common	Record* and Beneficial	23,562,500	100%	90.1%

*15 common shares are registered in the names of directors for qualifying purposes.

As at October 15, 1973, directors and senior officers of the Company, as a group, beneficially owned less than 1% of the outstanding common shares of Bell Canada and Microsystems.

DETAILS OF THE OFFERING

Description of Common Shares

The common shares of the Company are without nominal or par value and the holders are entitled to receive pro rata such dividends as may, from time to time, be declared by the Board of Directors; are entitled to one vote per share; have no preemptive or conversion rights; and are entitled, upon liquidation, to receive pro rata such assets of the Company as are distributable to holders of the common shares. Outstanding common shares are fully paid and non-assessable.

Plan of Distribution

Under an agreement dated December 4, 1973 between the Company and Greenshields Incorporated, Dominion Securities Corporation Harris & Partners Limited, A. E. Ames & Co. Limited, and Crang & Ostiguy Inc., as underwriters, the Company has agreed to sell and the underwriters have agreed to purchase on December 18, 1973 the 2,600,000 common shares offered by this prospectus at a price of \$15.00 per share, payable in cash to the Company against delivery of the said shares and the Company has agreed to pay the underwriters a commission of \$0.84 per share. The obligations of the underwriters under the agreement may be terminated at their discretion on the basis of their assessment of the state of the financial markets and may also be terminated by them upon the occurrence of certain stated events. The underwriters are, however, obligated to take up and pay for all of the 2,600,000 common shares if any of the said shares are purchased under the agreement.

Use of Proceeds

The estimated net proceeds to be received by the Company from the sale of the common shares offered by this prospectus, amounting to \$36,666,000 after payment of expenses of issue estimated not to exceed \$150,000, will be added to the Company's general funds and used to increase its capital base. The funds may incidentally be applied to meet increased working capital requirements resulting from expansion of the Company's business and to meet expenditures for additional production facilities and expansion of present facilities. Estimated consolidated capital expenditures for 1974 will exceed depreciation charges by \$32 million.

Dilution

Based on the consolidated balance sheet as at September 30, 1973 and after giving effect to this issue, the book value is \$9.21 per common share. Accordingly, purchasers of the shares offered by this prospectus might be said to have incurred an immediate dilution of \$5.79 per share when compared to such book value.

Eligibility for Investment

In the opinion of counsel, the common shares will qualify as investments:

- (a) in which insurance companies registered under Part III of the Canadian and British Insurance Companies Act (Canada) may invest their funds without resorting to the provisions of subsection (4) of section 63 of such Act;
- (b) which insurance companies registered under the Foreign Insurance Companies Act (Canada) may vest in trust without resorting to the provisions of section 4 of Schedule I to such Act;
- (c) in which trust companies incorporated under the Trust Companies Act (Canada) may invest their funds without resorting to the provisions of subsection (6) of section 68 of such Act;

- (d) in which loan companies incorporated under the Loan Companies Act (Canada) may invest their funds without resorting to the provisions of subsection (5) of section 60 of such Act;
- (e) in which the funds of pension plans registered under the Pension Benefits Standards Act (Canada) may be invested without resorting to the provisions of section 4 of Schedule C to the Regulations made under such Act.

DIVIDENDS

Dividend Record

During the five years ended December 31, 1972, the Company paid dividends on its common shares as follows:

	<u>Aggregate</u>	<u>Per Share (1)</u>
1968	\$ 9,506,000	\$0.500
1969	10,563,000	0.500
1970	8,836,000	0.375
1971	11,832,000 (2)	0.502
1972	11,781,000	0.500

(1) Reflects 13 for 1 subdivision of common shares on October 24, 1973.

(2) Includes special dividend of \$51,000.

The Company has paid dividends for the first three quarters of 1973 aggregating \$8,836,000, equal to \$0.375 per share and has declared a fourth quarterly dividend of \$0.125 per share payable to shareholders of record on November 22, 1973. Purchasers of the shares offered hereby will not be entitled to this dividend. It is not anticipated that any further dividends will be declared in 1973.

Dividend Policy

While the Company intends to pursue a policy of paying regular quarterly dividends to the holders of its common shares, the declaration of such dividends and the amounts declared will be subject to future earnings, financial requirements and other relevant considerations.

Dividend Restriction

Under the terms of the trust agreements relating to its debentures, the Company has covenanted not to declare or pay any dividends (other than stock dividends) or purchase, redeem or reduce any of its shares if, after giving effect to such action, the sum of the amounts paid or distributed for such purposes after December 31, 1972 will exceed consolidated net earnings of the Company and its subsidiaries earned after that date plus the net cash proceeds from the sale of its shares after that date plus \$25,000,000. At September 30, 1973 \$36,426,000 was free from these restrictions.

OPTIONS TO PURCHASE SECURITIES

NTI

Under a stock option plan authorized by NTI there are reserved 125,000 of its common shares for issuance, at not less than 100% of the fair market value on the date the option is granted, to certain officers and key employees of NTI and subsidiaries upon the exercise of options, all of which must be exercised in full within five years after their respective dates of grant. Options to purchase 47,500 shares have been granted under the plan, all at U.S. \$12.50 per share and expiring on various dates during 1978. There is no reasonably ascertainable market value for these shares and the price was determined in relation to projected net earnings.

Options were outstanding at October 15, 1973 as follows:

— to senior officers of Northern Electric, one of whom is a director of Northern Electric	19,000 shares
— to directors and senior officers of NTI and Northeast not included above	14,000 shares
— to other employees of NTI and Northeast	14,500 shares

Microsystems

Under a stock option plan authorized by Microsystems there are reserved 164,400 of its common shares for issuance, at not less than 90% of the market price, to certain officers and key employees of Microsystems and subsidiaries upon the exercise of options. Options are exercisable in installments in the three years following the second anniversary date of the grant (except options granted on June 23, 1971 and May 30, 1972, which are now exercisable in full) and must be exercised no later than seven years from the date of the grant. The closing market price of the common shares on The Toronto Stock Exchange on October 15, 1973 was \$8.25. Options outstanding at October 15, 1973, were as follows:

<u>To officers</u>	<u>To other employees</u>	<u>Exercise period</u>	<u>Option price</u>	<u>Market price at date of grant</u>
3,150 shares	13,500 shares	June 23, 1973 to 1978	\$4.97	\$5.125
13,250 shares	14,500 shares	June 26, 1973 to May 30, 1979	\$6.76	\$7.25
14,000 shares	59,750 shares	June 26, 1975 to 1980	\$8.55	\$8.75

There are warrants of Microsystems outstanding, issued to the holders of debentures of Northern Electric during 1969 in consideration for their agreeing to the making of certain changes in the Northern Electric debenture trust agreements, entitling the holders to purchase 430,000 common shares of Microsystems on or before April 1, 1979, at \$13.50 per share.

MANAGEMENT INTEREST

Six directors of the Company are directors of Bell Canada and two of these directors and two other directors of the Company are senior officers of Bell Canada and several directors and senior officers of the Company are also directors or senior officers of subsidiaries and all, as such, may be considered to be interested in the agreements with those companies referred to under "Material Contracts."

MATERIAL CONTRACTS

The Bell Canada Supply Agreement is referred to on page 9. Northern Electric and its subsidiaries have entered into the following material contracts within the last two years, in addition to contracts in the ordinary course of business:

1. Underwriting agreement referred to under "Plan of Distribution" on page 14.
2. Agreement dated March 27, 1972 with Bell Canada whereby the Company sold land and building at North York, Ontario for \$5,050,000 cash, which price was based on an independent appraisal.
3. Agreement dated July 1, 1973 between BNR and Northern Electric whereby Northern Electric purchased certain research and development assets for \$1,154,396 of which \$600,000 was paid in cash and the balance of \$554,396 is payable on or before March 1, 1974.
4. Agreements between Northern Electric and BNR whereunder Northern Electric purchased short-term income debentures of BNR as follows: dated December 31, 1971 for \$4,950,000 and dated May 15, 1972 for \$550,000 (all matured and paid off); and dated December 30, 1972 for \$5,500,000; and dated May 1, 1973 for \$275,000; and dated November 1, 1973 for \$330,000.
5. Agreement dated February 28, 1973, between NTI and shareholders of Northeast whereby NTI acquired 99.9% of the outstanding shares of Northeast for U.S. \$6,758,030.
6. Offer dated August 17, 1973 to shareholders of Zenith Electric Supply Limited pursuant to which NEDCO has acquired as of October 15, 1973 in excess of 94% of the 1,273,254 outstanding shares at a price of \$3.25 per share, which offer closed November 30, 1973.

7. Agreement dated November 28, 1973 between the Company, Bell Canada and BNR in connection with the sale of patents to Northern Electric and the cross licensing of patents and technical information among the parties.
8. Fifth Supplemental Trust Agreement bearing formal date of October 5, 1973 amending the Company's trust agreements pursuant to which its debentures were issued.

Copies of the foregoing agreements may be examined at the head office of the Company during the period of public distribution of the securities offered and for a period of 30 days thereafter.

PENDING LEGAL PROCEEDINGS

On August 31, 1971, an action was instituted in the Superior Court, District of Montreal, against the Company by Radionica A. G., claiming \$9,204,400 in connection with the Company's tender for the installation of a microwave system in Libya. Radionica A. G. has claimed \$1,354,400 in loss of commissions, \$350,000 in loss of profits and \$7,500,000 in damages to reputation and goodwill. Counsel for the Company is of the opinion that the Company has a valid defence to the action.

AUDITORS, TRANSFER AGENTS AND REGISTRAR

The Company's auditors are Touche Ross & Co., 1 Place Ville Marie, Montreal, Québec.

The Company will maintain transfer offices for its common shares at Montreal and Toronto. Montreal Trust Company will act as transfer agent for the common shares of the Company at Halifax, Winnipeg, Regina, Calgary and Vancouver and will act as registrar for the common shares at Halifax, Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver.

AUDITORS' REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

AUDITORS' REPORT

To the Board of Directors,
Northern Electric Company, Limited

We have examined the consolidated balance sheet of Northern Electric Company, Limited and subsidiary companies as at 30 September 1973 and the consolidated statements of earnings, retained earnings and source and application of funds for the five years and the nine months ended 30 September 1973 and the nine months ended 30 September 1972. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion:

- (a) the accompanying consolidated balance sheet presents fairly the consolidated financial position of the Company and its subsidiary companies as at 30 September 1973,
- (b) the accompanying consolidated statements of earnings and retained earnings of the Company and its subsidiary companies present fairly the results of their operations for the five years and the nine months ended 30 September 1973 and the nine months ended 30 September 1972, and
- (c) the accompanying consolidated statement of source and application of funds of the Company and its subsidiary companies presents fairly the source and application of their funds for the five years and the nine months ended 30 September 1973 and the nine months ended 30 September 1972,

all in accordance with generally accepted accounting principles applied on a consistent basis.

Montreal, Que.
4 December 1973.

TOUCHE ROSS & Co.
Chartered Accountants

NORTHERN ELECTRIC COMPANY, LIMITED

CONSOLIDATED STATEMENT OF EARNINGS

(Thousands of Dollars)

	9 Months Ended 30 September		Year Ended 31 December				
	1973	1972	1972	1971	1970	1969	1968
Sales	\$422,040	\$386,359	\$534,313	\$576,296	\$563,611	\$482,523	\$426,272
Cost of Sales including Selling and General Administrative Expense	347,163	325,043	447,417	505,931	509,162	422,060	378,464
Depreciation Expense	10,377	9,807	13,047	11,709	12,356	10,534	9,865
	<u>357,540</u>	<u>334,850</u>	<u>460,464</u>	<u>517,640</u>	<u>521,518</u>	<u>432,594</u>	<u>388,329</u>
Earnings from Operations before deducting Research and Development Expenses	64,500	51,509	73,849	58,656	42,093	49,929	37,943
Research and Development Expenses	23,547	22,139	28,039	29,677	30,996	25,933	21,744
	<u>40,953</u>	<u>29,370</u>	<u>45,810</u>	<u>28,979</u>	<u>11,097</u>	<u>23,996</u>	<u>16,199</u>
Income from Investments	2,842	1,465	2,080	1,309	1,562	151	119
	<u>43,795</u>	<u>30,835</u>	<u>47,890</u>	<u>30,288</u>	<u>12,659</u>	<u>24,147</u>	<u>16,318</u>
Interest Charges							
Long Term Debt	3,787	4,031	5,328	5,439	4,313	2,157	2,279
Bank and Other	821	188	308	279	792	1,477	402
	<u>4,608</u>	<u>4,219</u>	<u>5,636</u>	<u>5,718</u>	<u>5,105</u>	<u>3,634</u>	<u>2,681</u>
Earnings before Underlisted Items	39,187	26,616	42,254	24,570	7,554	20,513	13,637
Provision for Income Taxes (Note 2)	20,182	14,533	23,608	14,470	5,290	9,845	5,621
	<u>19,005</u>	<u>12,083</u>	<u>18,646</u>	<u>10,100</u>	<u>2,264</u>	<u>10,668</u>	<u>8,016</u>
Minority Interest in Net Loss of Subsidiary Companies before Extraordinary Items ...	1,257	1,584	1,649	2,511	2,761	308	465
Earnings before Extraordinary Items	<u>20,262</u>	<u>13,667</u>	<u>20,295</u>	<u>12,611</u>	<u>5,025</u>	<u>10,976</u>	<u>8,481</u>
Extraordinary Items (Note 3)	—	2,685	(197)	—	(958)	—	906
Net Earnings for the Period	<u>\$ 20,262</u>	<u>\$ 16,352</u>	<u>\$ 20,098</u>	<u>\$ 12,611</u>	<u>\$ 4,067</u>	<u>\$ 10,976</u>	<u>\$ 9,387</u>
Net Earnings per Share (Note 4)							
Before Extraordinary Items	\$0.86	\$0.58	\$0.86	\$0.54	\$0.21	\$0.52	\$0.45
After Extraordinary Items	\$0.86	\$0.69	\$0.85	\$0.54	\$0.17	\$0.52	\$0.49

NORTHERN ELECTRIC COMPANY, LIMITED

CONSOLIDATED BALANCE SHEET

AS AT 30 SEPTEMBER 1973

(Thousands of Dollars)

ASSETS

Current

Cash	\$ 2,227
Short Term Investments at cost (approximates market value)	35,325
Accounts Receivable	
Affiliated Companies	39,040
Other	63,293
Inventories (Note 5)	149,123
Prepaid Expenses	4,331
Deferred Income Taxes	10,991
	<u>304,330</u>

Investment in Affiliated Company at cost

Share Capital	49
Income Debentures	5,775
	<u>5,824</u>

Other Investments at cost	1,500
---------------------------------	-------

Plant and Equipment at cost

Land and Buildings	59,678
Machinery and Equipment	197,044
	<u>256,722</u>
Less: Accumulated Depreciation	140,781
	<u>115,941</u>

Deferred Charges and Goodwill

Unamortized Discount and Expenses on Long Term Debt	666
Goodwill (Note 6)	3,808
	<u>4,474</u>
	<u>\$432,069</u>

LIABILITIES

Current

Due to Banks	\$ 23,031
Accounts Payable and Accrued Liabilities	
Affiliated Companies	3,436
Other	86,034
Taxes Payable	16,736
Long Term Debt Instalments due within one year (Note 7)	2,159
	<u>131,396</u>

Long Term Debt (Note 7)	71,688
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Deferred Income Taxes	20,195
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Minority Interest in Subsidiary Companies	5,090
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228,369

SHAREHOLDERS' EQUITY

Capital Stock (Note 4)	113,975
Contributed Surplus (Note 8)	7,544
Retained Earnings	82,181
	<u>203,700</u>

\$432,069

Approved on behalf of the Board of Directors:

V. O. MARQUEZ, Director

G. PLOURDE, Director

NORTHERN ELECTRIC COMPANY, LIMITED
CONSOLIDATED STATEMENT OF RETAINED EARNINGS
(Thousands of Dollars)

	9 Months Ended 30 September		Year Ended 31 December				
	1973	1972	1972	1971	1970	1969	1968
Balance at Beginning of Period	\$70,755	\$62,438	\$62,438	\$61,659	\$66,428	\$61,715	\$57,934
Add: Net Earnings for the Period	20,262	16,352	20,098	12,611	4,067	10,976	9,387
Transfer of Contingency Reserve	—	—	—	—	—	—	3,900
Transfer of Reserve for Pensioners' Death Benefits	—	—	—	—	—	4,300	—
	91,017	78,790	82,536	74,270	70,495	76,991	71,221
Deduct: Dividends Paid	8,836	8,836	11,781	11,832(A)	8,836	10,563	9,506
Balance at End of Period	<u>\$82,181</u>	<u>\$69,954</u>	<u>\$70,755</u>	<u>\$62,438</u>	<u>\$61,659</u>	<u>\$66,428</u>	<u>\$61,715</u>

(A) Includes special dividend of \$51.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS
(Thousands of Dollars)

	9 Months Ended 30 September		Year Ended 31 December				
	1973	1972	1972	1971	1970	1969	1968
Source of Funds							
Operations:							
Net Earnings	\$20,262	\$16,352	\$20,098	\$12,611	\$ 4,067	\$10,976	\$ 9,387
Items not requiring funds							
Depreciation and Miscellaneous	10,539	9,763	13,086	11,723	12,381	10,668	10,068
Deferred Income Taxes	(306)	(1,211)	(395)	1,223	(139)	7,782	4,404
Reduction in Deferred Income	—	—	—	—	—	(1,478)	—
	30,495	24,904	32,789	25,557	16,309	27,948	23,859
Minority Interest in Net Loss of Subsidiary Companies	(1,257)	(1,584)	(1,649)	(2,511)	(2,761)	(308)	(465)
	29,238	23,320	31,140	23,046	13,548	27,640	23,394
Proceeds from Long Term Debt	1,363	1,070	1,540	2,192	40,263	859	—
Proceeds from Issuance of Capital Stock ...	—	—	—	—	—	35,000	—
Proceeds from sale of Fixed Assets after reflecting gains and losses in Net Earnings ..	143	2,920	3,036	6,478	91	214	207
Contributed Surplus (Note 8)	187	—	—	—	7,357	—	—
Capital contribution by Minority Share- holders in Subsidiary Companies	626	—	—	208	10,689	709	713
Minority Interest in acquired Subsidiary Company	253	—	—	—	—	—	—
Decrease in Working Capital	2,315	2,435	1,612	11,408	—	—	—
	<u>\$34,125</u>	<u>\$29,745</u>	<u>\$37,328</u>	<u>\$43,332</u>	<u>\$71,948</u>	<u>\$64,422</u>	<u>\$24,314</u>
Application of Funds							
Expenditures for Plant and Equipment	\$17,464	\$ 9,536	\$11,617	\$21,883	\$20,924	\$24,163	\$12,490
Property previously held for sale and leaseback transferred to Plant and Equipment	—	7,922	7,922	—	—	—	—
Reduction of Long Term Debt	3,194	2,951	5,108	4,018	3,950	2,000	2,000
Dividends	8,836	8,836	11,781	11,832	8,836	10,563	9,506
Investment in Affiliated and Associated Companies	275	500	500	4,999	50	—	(290)
Other Investments	500	—	400	600	—	—	—
Goodwill (Note 6)	3,856	—	—	—	—	—	—
Increase in Working Capital ..	—	—	—	—	38,188	27,696	608
	<u>\$34,125</u>	<u>\$29,745</u>	<u>\$37,328</u>	<u>\$43,332</u>	<u>\$71,948</u>	<u>\$64,422</u>	<u>\$24,314</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Principles of Consolidation

The consolidated balance sheet at 30 September 1973 and the consolidated statements of earnings, retained earnings and source and application of funds for the five years and the nine months ended 30 September 1973 and for the nine months ended 30 September 1972 include the accounts of the under-noted companies. Where appropriate, amounts reported previously have been restated to reflect subsequent adjustments. Where stock ownership and control of subsidiary companies was acquired during the five year and nine month periods the accounts of these companies are included in the consolidated statements of earnings, retained earnings and source and application of funds only to the extent of the income earned since the date of acquisition of control.

	<u>Ownership</u>
Dominion Sound Equipments Limited	100%
Microsystems International Limited (incorporated in 1969)	59.5%
which owns 100% of the voting stock of	
Microsystems International GmbH, Germany (incorporated in 1970)	
Microsystems International Inc., U.S.A. (incorporated in 1972) and	
Microsystems International Sendirian Berhad, Malaysia (incorporated in 1972)	
Nedco Ltd. (incorporated in 1972)	100%
which owns 94.2% of the voting stock of	
Zenith Electric Supply Limited (control acquired in 1973)	
which owns controlling interests of	
Masco Electric Company Limited	
Zenith Electric Supply (Ontario) Limited	
E.T.R. Supply Co. Ltd.	
Zentronics Ltd.	
Zentronics (Eastern) Ltd. and	
Zentronics/Masco Limitée	
Nevron Industries Company Limited (incorporated in 1972)	100%
Northern Electric Caribbean Limited, Jamaica	100%
Northern Electric Company (Ireland) Limited (incorporated in 1973)	100%
Northern Electric Telekomunikasyon, A.S., Turkey	51%
Northern Telecom, Inc., U.S.A. (incorporated in 1971)	100%
which owns 99.9% of the voting stock of	
Northeast Electronics Corporation, U.S.A. (control acquired in 1973)	

2. Provision for Income Taxes

Possible future reductions in income taxes relating to losses carried forward in certain subsidiary companies have not been taken up in the accounts as the date of their realization cannot, as yet, be determined.

3. Extraordinary Items

A) 1972

1) Gain on sale of land and building (at independent appraisal value of \$5,050,000) to Bell Canada, the parent company, less applicable income taxes of \$99,000	\$ 2,685,000
2) Provision for cost due to relocation of manufacturing operations, less applicable income taxes of \$2,704,000	(2,882,000)
	<u>\$ (197,000)</u>

B) 1970

Provision for loss on a short-term investment (net of minority interest)	\$ (958,000)
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C) 1968

Income tax reductions realized on the carry-forward of a loss	\$ 906,000
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4. Capital Stock

Under supplementary letters patent dated 24 October 1973, the authorized share capital of Northern Electric Company, Limited (the Company) was increased from 2,250,000 to 3,000,000 common shares without nominal or par value and from an aggregate value of \$175,000,000 to an aggregate value of \$225,000,000. The number of authorized shares was subdivided on a 13 for 1 basis to 39,000,000 shares, of which 23,562,500 have been issued for the 1,812,500 outstanding at 30 September 1973.

Earnings per share are calculated after giving effect to the above subdivision.

5. Inventories

Inventories are valued at the lower of cost and net realizable value except for copper in raw materials and work-in-process which is valued on a base-stock method.

6. Goodwill

Goodwill represents the unamortized excess of the acquisition cost over the net assets of a subsidiary acquired in 1973 and is being amortized over a period of forty years. The amount charged to earnings for the nine months ended 30 September 1973 was \$48,000.

7. Long Term Debt

Sinking Fund Debentures*	Authorized and Issued	Redeemed	Outstanding	
			Current Liability	Long Term Debt
4¾ % due 1 November 1976	\$20,000,000	\$13,107,000	\$ —	\$ 6,893,000
5¾ % 1962 Series due 15 December 1982	20,000,000	7,085,000	—	12,915,000
6½ % Series C due 15 April 1986	15,000,000	3,736,000	—	11,264,000
9¾ % Series D due 30 April 1990	40,000,000	3,600,000	1,200,000	35,200,000
	<u>\$95,000,000</u>	<u>\$27,528,000</u>	1,200,000	66,272,000
Loan to Microsystems by Canadian Government			949,000	5,378,000
Other			10,000	38,000
			<u>\$2,159,000</u>	<u>\$71,688,000</u>

Annual repayments required for each of the five years following 30 September 1973 are: 1974 \$2,159,000, 1975 \$4,505,000, 1976 \$9,384,000, 1977 \$4,785,000, 1978 \$4,874,000.

*Under the terms of the Trust Agreement (see Note 11) the interest rates reflect an increase of ¼ of 1% per annum effective 1 November 1973.

8. Contributed Surplus

Contributed surplus represents the excess amount paid by minority shareholders of Microsystems International Limited (Microsystems) over their proportional interest acquired on the issue of common shares.

1973	\$ 187,000
1970	7,357,000
	<u>\$7,544,000</u>

9. Plan for Employees' Pensions

The latest actuarial evaluation of the Plan established an unfunded cost of \$47,716,000 at 31 December 1972. This amount is being funded by regular payments which will terminate in 1990. These payments are charged to operations in the year they are made.

10. Commitments

Material contractual obligations in respect of long term property leases amounted to \$24,146,000 at 30 September 1973. Related rentals incurred for the year ended 31 December 1972 amounted to \$1,914,000. The minimum amount applicable to the five years subsequent to 30 September 1973 is \$11,030,000.

In 1970, the Company subscribed and agreed to pay for, over a period ending 31 December 1973, an additional 1,950,000 common shares of Microsystems at a price of \$10 per share. As at 30 September 1973, the Company had purchased 450,000 common shares and advanced \$10,000,000 in respect of this subscription. The quoted market price of the Microsystems shares at 30 September 1973 was \$8.75 per share.

11. Trust Agreement Restrictions

Under the terms of the Trust Agreement relating to its debentures as amended on 5 October 1973, the Company has covenanted not to declare or pay any dividends (other than stock dividends) or purchase, redeem or reduce any of its shares if, after giving effect to such action, the sum of the amounts paid or distributed for such purposes after 31 December 1972 will exceed the aggregate of:

- (A) Consolidated net earnings of the Company and its subsidiaries earned after 31 December 1972;
- (B) The net cash proceeds from the sale of its shares after 31 December 1972; and
- (C) \$25,000,000.

As at 30 September 1973 \$36,426,000 was free from these restrictions.

12. Microsystems International Limited

Canadian Government Conditional Grants

Under agreements between the Canadian Government and Microsystems for conditional grants, \$22,721,000 had been claimed for certain research and development, and preproduction expenditures and \$6,661,000 had been claimed in respect of capital expenditures to 30 September 1973. Microsystems may claim additional grants totalling \$1,229,000 for research and development, and preproduction expenditures and \$5,339,000 in respect of capital expenditures. Should the cumulative earnings of Microsystems (after deduction of losses) before income taxes be in excess of 10% of the cumulative sales of semiconductor products except discrete components, then these grants will be repayable, without interest, from the cumulative earnings in excess of 10% of such sales. Such grants are not reflected as a liability in the consolidated financial statements.

13. Subsequent Event

On 4 December 1973 the Company entered into an agreement with underwriters providing for the sale of 2,600,000 common shares for the sum of \$39,000,000 prior to underwriting commission of \$2,184,000 and expenses of issue payable by the Company estimated not to exceed \$150,000. The commission and expenses of issue will be charged to retained earnings less estimated applicable income taxes of \$570,000.

RA-3T4 MICROWAVE

LD-4 DIGITAL TRANSMISSION EQUIPMENT

MA 5 MULTIPLEX

CENTURION* PAY PHONE

SATELLITE ELECTRONICS PLATFORM



SP-1 ELECTRONIC SWITCHING SYSTEM



PULSE* PABX



CONTEMPRA* PHONE



LOGIC 10*10 BUTTON PHONE



COMPANION* "HANDSFREE" PHONE



CABLE

Northern Electric PRODUCTS

*Northern Electric Trademark

CERTIFICATES

Dated: December 4, 1973

Company

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part VII of the Securities Act, 1967 (British Columbia), by Part 7 of The Securities Act (Alberta), by Part VIII of The Securities Act, 1967 (Saskatchewan), by Part VII of The Securities Act (Manitoba) and by Part VII of The Securities Act (Ontario) and the respective regulations thereunder and under the Securities Act (Québec) and by Section 13 of the Securities Act (New Brunswick).

JOHN C. LOBB
Chief Executive Officer

R. F. DOYLE
Chief Financial Officer

On behalf of the Board of Directors

V. O. MARQUEZ
Director

G. PLOURDE
Director

Underwriters

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part VII of the Securities Act, 1967 (British Columbia), by Part 7 of The Securities Act (Alberta), by Part VIII of The Securities Act, 1967 (Saskatchewan), by Part VII of The Securities Act (Manitoba) and by Part VII of The Securities Act (Ontario) and the respective regulations thereunder and under the Securities Act (Québec) and by Section 13 of the Securities Act (New Brunswick).

GREENSHIELDS
INCORPORATED

DOMINION SECURITIES CORPORATION
HARRIS & PARTNERS LIMITED

A. E. AMES & CO.
LIMITED

By: BARRIE A. GOAD

By: P. DUHAMEL

By: P. L. DIXON

CRANG & OSTIGUY INC.

By: JEAN P. BOUSQUET

The following includes the names of all persons having an interest directly or indirectly to the extent of not less than 5% of the capital of:

GREENSHIELDS INCORPORATED: Peter Kilburn, Viscount Hardinge, Dudley Dawson, J. E. Brookes, W. T. Moran, B. P. Drummond, F. S. Martin, B. G. Willis, B. A. Goad, D. D. McConnell, J. B. Newman and E. D. Scott;

DOMINION SECURITIES CORPORATION HARRIS & PARTNERS LIMITED: D. H. Ward, W. B. Harris, F. H. Logan, A. S. Fell, G. S. Dembroski, J. B. Pitblado, M. H. Wilson, J. R. Gainor, J. J. Helbronner, S. F. Hughes and C. R. Younger;

A. E. AMES & CO. LIMITED: J. O. Hughes, E. C. Lipsit, P. D. G. Harris, P. M. Fisher, R. L. Brown, R. A. Gunn and P. L. Dixon; and

CRANG & OSTIGUY INC.: J. Harold Crang, Jean P. W. Ostiguy, Jean P. Bousquet, Murray J. Howe and George H. Nation.



Shown here are the corporate headquarters★ of Northern Electric, its subsidiaries and affiliate company; manufacturing facilities■ existing and under construction, with the number in any metropolitan area (2), and research facilities●. Plant locations are listed on the inside back cover. Not shown are warehouses, sales and purchasing offices located throughout the world, in such centers as London, Paris and Hong Kong.

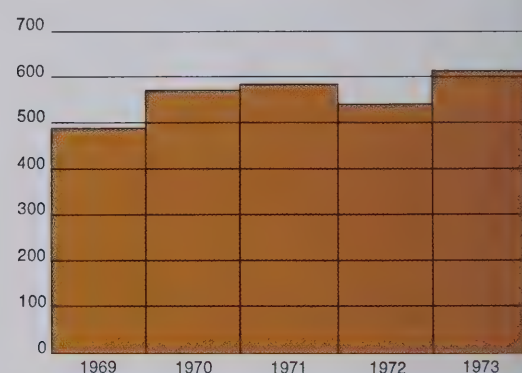


Consolidated Results in Brief

	1973	1972
Sales	\$612,821,000	\$534,313,000
Net Earnings	32,030,000	20,098,000
Net Earnings per Share		
Before Extraordinary Items	1.35	0.86
After Extraordinary Items	1.35	0.85
Dividends	11,781,000	11,781,000
Dividends per Share	0.50	0.50
Capital Expenditures	26,802,000	19,539,000
Working Capital	210,362,000	175,249,000
Employees (at December 31, includes all subsidiaries and Bell-Northern Research Limited, an affiliate)	25,073	20,787

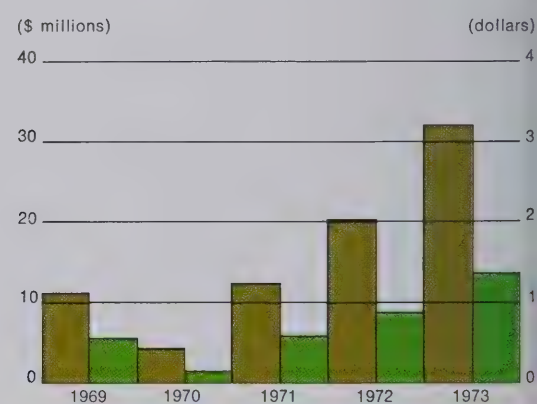
CONSOLIDATED SALES

(\$ millions)



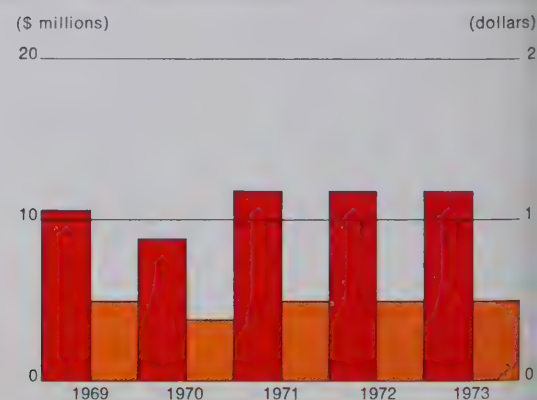
NET EARNINGS

■ TOTAL (\$ millions)
■ PER SHARE (dollars)



DIVIDENDS

■ TOTAL (\$ millions)
■ PER SHARE (dollars)



Directors

- *Ewart O. Bridges*
Group Vice-President
Switching and Transmission
- *A. Jean de Grandpré, Q.C.*
President
Bell Canada
- Georges L. Demers, Q.C.*
President
Sterling Securities Corporation
- J. Douglas Gibson, O.B.E.*
Economic Consultant
- Robert S. Hurlbut*
Chairman of the Board and President
General Foods Limited
- *Herbert H. Lank*
Director
Du Pont of Canada Limited
- Walter F. Light*
Executive Vice-President
Operations
Bell Canada
- *John C. Lobb*
President and Chief Executive Officer
- *Vernon O. Marquez*
Consultant
- Charles G. Millar*
Executive Vice-President
Operations
- J. Angus Ogilvy, Q.C.*
Senior Partner
Ogilvy, Cope, Porteous, Hansard,
Marler, Montgomery & Renault
- Charles Perrault*
President
Conseil du Patronat du Québec
- *Gérard Plourde*
Chairman of the Board and
Chief Executive Officer
U A P Inc.
- *Robert C. Scrivener*
Chairman of the Board of the Company,
and Chairman of the Board and
Chief Executive Officer
Bell Canada
- James C. Thackray*
Executive Vice-President
Bell Canada
- W. Maurice Young*
Chairman of the Board and
Chief Executive Officer
Finning Tractor & Equipment Co. Ltd.

**Members of the Executive Committee*

Officers

- President and Chief Executive Officer**
John C. Lobb
- Executive Vice-Presidents**
Richard F. Doyle
Finance
- Charles G. Millar*
Operations
- Group Vice-Presidents**
Q. R. Ball
Subscriber Equipment
- Ewart O. Bridges*
Switching and Transmission
- Kenneth H. Woodley*
Cable and Outside Plant
- Senior Vice-Presidents**
W. Ritchie Johnston
Planning and Organization
- W. A. Thompson*
Operations Staff
- Vice-Presidents**
C. A. Anderson
Product Line Manager
Subscriber Equipment
- Walter C. Benger*
Technology and Development
- William C. Cawthon*
Manufacturing
- David A. Climan*
Finance
- Roy T. Cottier*
Corporate Relations
- J. D. M. Davies*
Marketing
- Richard A. Fortier*
Industrial Relations
- W. Leonard Glasspoole*
Controller
- William J. Pardy*
Cable
- William T. Simpson*
Transmission
- Elliott Turcot*
Switching
- Jacques Villeneuve*
Personnel
- Corporate Secretary and Counsel**
Joyce A. Borden Reed
- Treasurer**
Bruce S. Russel

Directors and Officers

The most important action involving your company in 1973 was the decision of your directors to make Northern Electric a public company. With access to the world's capital markets, Northern Electric may now move even more rapidly towards its objective of becoming one of the world's leading multinational telecommunications companies.

The 2,600,000 shares of common stock were offered to the investing public on December 5. They were well received by institutional and individual investors alike, although the North American stock markets were at one of their lowest points for the year. Northern Electric common stock is now being traded on the Montreal, Toronto and Vancouver stock exchanges.

Report to shareholders

Operating results

Operating revenues and earnings were at record levels. Consolidated sales of the company and subsidiaries were \$612,821,000, up from \$534,313,000 in 1972. Consolidated net earnings reached \$32,030,000, compared with \$20,098,000 in 1972. Every Northern Electric division operated profitably. With the exception of Microsystems International Limited, and the new Irish company, all subsidiaries set new earnings records. Earnings per share were \$1.35 compared with \$0.85 for last year.

The complex business of engineering and building large switching systems severely depressed company earnings three years ago. The switching divisions have improved efficiency, expanded marketing efforts and turned heavy losses into reasonable profits. This was a major factor in the 59 per cent increase in net earnings this year over the previous year.

The transition from electro-mechanical to electronic designs has been largely accomplished in switching and transmission. Obsolete product lines have been dropped; inefficient factories are being phased out, and integration of research, manufacturing and marketing is greatly improved. The company has made some organizational changes to meet the requirements of operating in world markets.

Return on investment

Northern Electric earnings and sales have increased substantially. For the first time in its history your company is achieving a profit margin and return on investment comparable to other major companies in this industry.

Current expansion

Northern Electric is now in a major expansionist phase. In Montreal alone, we are spending \$12,000,000 to replace manufacturing facilities built in 1914. A new factory is underway in Amherst, N.S., and other new plants are planned for both eastern and western Canada. Several existing factories will be expanded.

The United States will always be Northern Electric's largest market outside of Canada because of size and because North America has one network of compatible equipment. The so-called "independent" telephone system of the U.S., outside of the U.S. Bell System, is now over 24 million lines, twice the size of the total Canadian network. This is the major target of our marketing expansion. In some products, we also enjoy good sales to some of the A. T. & T. subsidiaries. To handle the fast-growing United States market, Northern Telecom, Inc., a wholly-owned subsidiary of Northern Electric, is establishing or expanding factories in Mountain View, California; Butner, North Carolina; Port Huron, Michigan and Concord, New Hampshire. All will be in production by April, 1974.

The European Common Market is a challenge. A major expansion and modernization of telecommunications systems is underway in every country. Northern Electric can enter most of these nations only through licencing or joint ventures with local suppliers. The company has entered into a licencing agreement with The Plessey Company of England for the manufacture and sale of six specified products in the U.K., Australia, South Africa and other world markets. We are exploring other possibilities in several other countries. In April, 1973 we established a factory in Galway, Eire, to provide a manufacturing facility in the Common Market.

Subsidiary activity

Nedco Ltd.

Our large distribution subsidiary, Nedco, had an excellent year. This company operates 33 branches and warehouses across Canada, handling a wide range of electrical and industrial products. It is no longer a distribution division of Northern Electric, but a separate business. During 1973 Nedco acquired a substantial Ontario distributor, Zenith Electric Supply Limited. This organization has been successfully merged and will prove a valuable asset. Further acquisitions are planned in Canada, Europe and the U.S.

Northern Telecom, Inc.

Our American subsidiary, Northern Telecom, Inc., had another good year in spite of a general shortage of product late in 1973. This operation is mainly a sales company, although manufacturing facilities are being established to provide better service to the huge U.S. market.

During 1973, Northern Telecom acquired an excellent high-technology company in the transmission test equipment field, Northeast Electronics Corp., of Concord, N.H. This company is growing rapidly. Its factory has been doubled in size to increase production of its original product lines and to permit manufacture of some Northern Electric transmission products for the American market. Further acquisitions in the U.S. are planned.

Microsystems International Limited

Microsystems had a disappointing year. It was the only division or subsidiary that was not profitable over the 12-month period. In 1974 this subsidiary will concentrate on fewer products and on selective markets. Northern Electric invested another \$5 million late in 1973 in Microsystems, bringing its ownership to 68.48 per cent and its total investment in the company to \$28,400,000.

Europe and Asia

Sales offices were opened in London and Paris. A small engineering adaption facility is being considered for better service to the government-owned telephone companies of France and England. Distribution relationships are being worked out in other European nations.

In Hong Kong, we have established a procurement office to tap the wide range of electronic components produced in the Far East. This has been extremely helpful in the current period of shortages. In Penang, Malaysia, Northern Electric is manufacturing electronic components on a trial basis in collaboration with Microsystems International. Asiatic expansion is being studied.

Research and development

The development and successful market introduction of new products are vital to all industry. With the collaboration of Bell-Northern Research, jointly owned with Bell Canada, Northern Electric has been successful in the development of a number of new products. The SP-1 electronic switching system has virtually become standard in the Canadian telephone industry. Sales in the U.S. have been excellent. New developments in key systems and telephone sets have opened up large new markets in Europe and the U.S. The new Pulse electronic PABX (private automatic branch exchange), introduced in late 1972, has been one of the most successful products ever developed by Northern Electric.

Looking into the future, all electronic digital switching, new microwave systems, the world's newest digital transmission system and many new electronic subscriber products will be brought into production by Northern Electric. Telecommunications transmission with fiber optics looks promising. New products constitute a growing share of total sales; over 30 per cent of all 1973 production was of Canadian design. This percentage is rising rapidly.

Management changes

When a company sets international marketing objectives as challenging as those Northern Electric has set for itself, its first consideration is to ensure it has superior management at all levels and to organize to make the most effective use of such management.

The management organizational structure has been changed over the past two years to fit expansion requirements. Most of the senior managers of the company have functions and responsibilities different from those they had a year ago. It is worth noting that almost three-quarters of the appointments to senior management positions last year were from within the organization. At the same time, the company had an international management recruiting program underway that was unrivalled by any other Canadian company.

The major organizational change was the appointment of Charles G. Millar, formerly Vice-President Switching, to the position of Executive Vice-President, Operations. New officers appointed since the last annual report are: C. A. Anderson, Vice-President and Product Line Manager, Subscriber Equipment; William C. Cawthon, Vice-President Manufacturing; David A. Climan, Vice-President Finance; Roy T. Cottier, Vice-President Corporate Relations; J. D. M. Davies, Vice-President Marketing; William T. Simpson, Vice-President Transmission; Elliott Turcot, Vice-President Switching and Jacques Villeneuve, Vice-President Personnel.

Board of Directors

After an outstanding 44-year career with the company, Vernon O. Marquez, retired as Chairman of the Board and Chief Executive Officer on September 30, 1973. The company is, however, fortunate in still having the services of Mr. Marquez as a director and as a consultant. Much of the current success of the company derives from programs established, and decisions made, during Mr. Marquez's tenure.

Robert C. Scrivener, Chairman of the Board and Chief Executive Officer, Bell Canada was elected Chairman of the Board to succeed Mr. Marquez. John C. Lobb, President, was elected Chief Executive Officer.

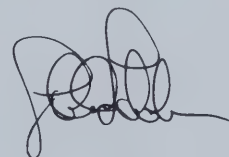
Arnold J. Groleau retired from the Board in 1973. The Board expresses its appreciation to him for his contributions during his term as a director.

James C. Thackray, Executive Vice-President, Bell Canada, and W. Maurice Young, Chairman of the Board and Chief Executive Officer, Finning Tractor and Equipment Co., Ltd., were elected to the Board at the last annual general meeting. Charles G. Millar, Executive Vice-President, Operations, Northern Electric, joined the Board in October, 1973.

Outlook

The world telecommunications industry doubles every 10 years. Telecommunications construction budgets, which govern our growth potential, will continue to grow faster than the total industry. The biggest and the most innovative market is North America. Our order backlog in every product grouping is at record levels. We do have some uncertainty over availability of raw materials, components and some purchased parts. We expect to get the necessary production out and continue to open new markets.

On behalf of the Board,



John C. Lobb
President and
Chief Executive Officer

February 21, 1974.

Review of operations

The company attained most of its 1973 production objectives and did so against a background of world shortages of basic materials, an energy crisis, and a company-wide strike that extended over a 10-week period affecting all of the company's Canadian operations.

An international program of plant expansion was accelerated during the year, and included new plants and plant expansion in Canada, the United States and Ireland. In all, more than 824,000 square feet of new manufacturing space was, or is being, added at 11 sites.

Capital expenditures for the year totalled \$26.8 million, of which \$20 million were spent in Canada. The major portion of the capital expenditures went towards expansion projects.

Anticipating world shortages of certain key materials such as copper, steel, and various types of plastics, the company has taken steps to help maintain a flow of adequate supplies for its production needs in 1974.

New division formed

Outside Plant, which includes all the connecting equipment between the subscriber's apparatus and the central office switching center, became a separate business in 1973. This move will enable the company to broaden the product portfolio and improve service.

Among new products introduced by the *Outside Plant Division* during the year were backboards, LD-1 apparatus cases and aerial cable terminal. A buried peg locator and a fixed count cable terminal have been developed for production early in 1974.

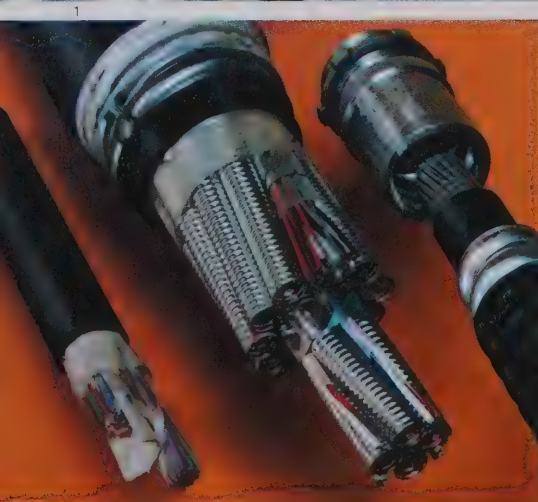
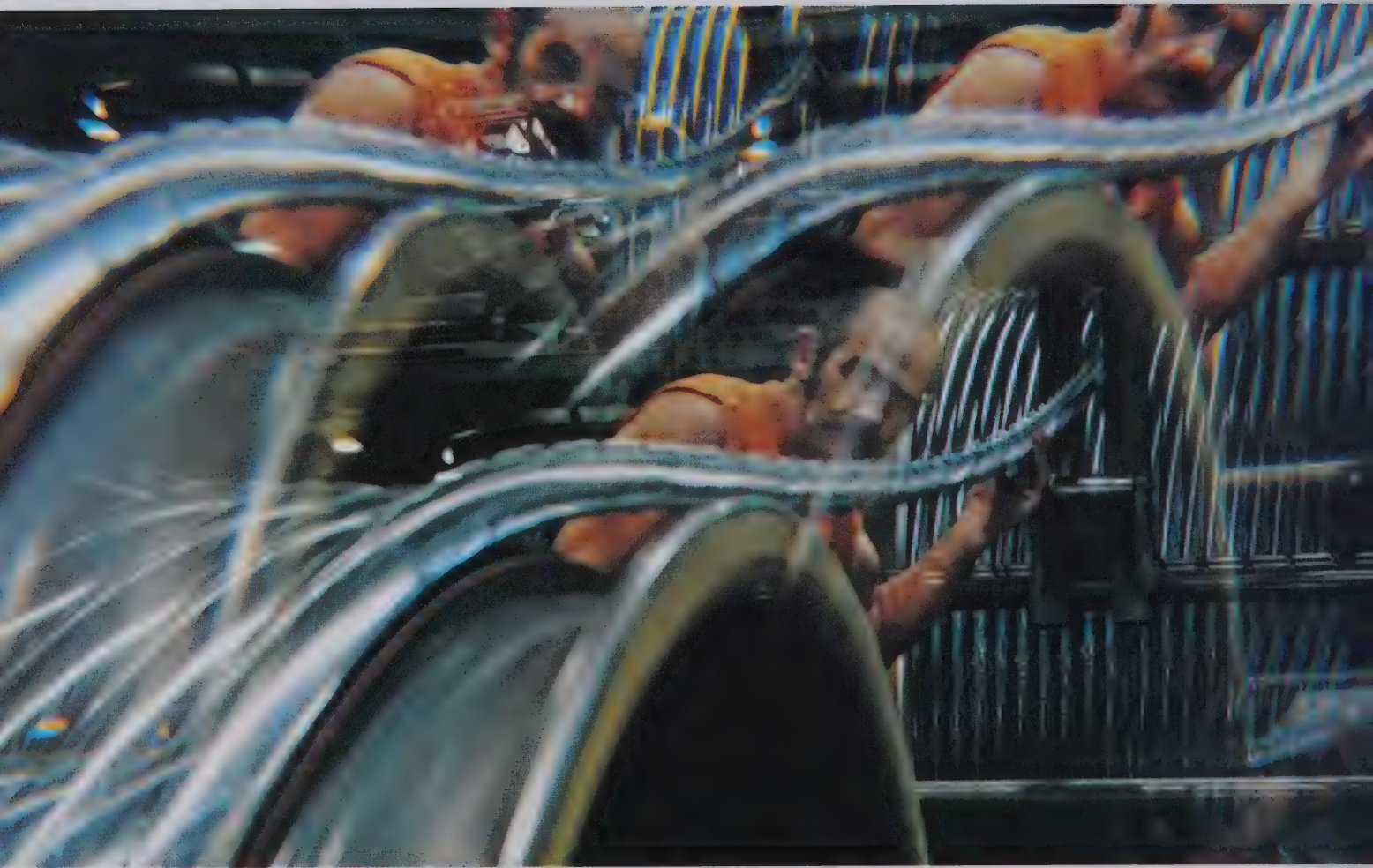
Outside Plant products manufactured in several other company plants are being consolidated in the new division's headquarters and manufacturing base at Amos Street in Lachine. The transfer of these products, started during 1973, will be completed in 1974.



- 1 Centurion, a rugged, new "vandal proof" coin telephone.
- 2 The attractive attendant's console for the Pulse 80 electronic private branch exchange (EPABX).
- 3 Centurion telephones on the assembly line in London, Ont.
- 4 Plugging in a Companion 3 handsfree speaker unit to a Logic 10 telephone.
- 5 Adding a new feature to the Pulse 80 EPABX via a printed circuit board at Belleville, Ont.



- 1 Reeling off armoured cable at Lachine, Que., Canada's largest wire and cable plant.
- 2 Examples (l to r) of telephone, coaxial and power cables.
- 3 The all-weather aerial cable connector.
- 4 Buried Peg Locator, used to find underground installations of equipment via radio frequencies.
- 5 302 Connector Block with plug-in units to protect central switching office equipment from overloads.





Telephone production increased

Production at the *Station Apparatus Division's* main telephone plant in London, Ontario, was increased 30 per cent to meet customer requirements.

Steps to expand telephone manufacturing facilities include construction of a 42,000-square-foot plant to employ more than 200 people in Amherst, N.S., and enlargement of the division's plant in Regina. The Amherst plant will be in full operation by May.

The division is also supporting the growth of station apparatus production facilities of Northern Electric's Irish, Turkish and American subsidiaries by supplying them parts and technical advice.

Among new products introduced by the division were the Logic 10 key set, the Companion handsfree telephone and two models of the Centurion coin phone.

Pulse, SP-1 sell in U.S.

The *Business Communications Division* is assisting the American subsidiary, Northern Telecom, Inc., to establish a new 40,000-square-foot plant in Mountain View, California. It is scheduled to begin production of Pulse 80 private branch exchanges in the first half of 1974. Pulse 80 has sold well since its introduction in both American and Canadian markets in October, 1972. The line will be augmented by a larger capacity 120-line version in the latter half of 1974.

Significant improvements marked switching and transmission results, and were due mainly to major expense reductions and productivity gains. Work is progressing satisfactorily on four new plants in the Montreal area and decentralization into these plants will occasion further savings in 1974.

Review of operations (cont.)

Review of operations (cont.)

The *Electronic Switching Division* in 1973 increased its sales substantially, reflecting the wide customer acceptance throughout North America of the SP-1 family of electronic switching systems. The electronic switching work force expanded by 300 to 1,150 in 1973, with sales up 50 per cent. The first shipment of an SP-1 system to the United States was on schedule in November. The unit will go into operation in the late spring of 1974 in the North Ridgeville, Ohio, office of the Elyria Telephone Company.

Development work on the company's new MOS (metal oxide silicon) semiconductor memory for the SP-1 family of switching systems has been completed. Expenditures on this and other development work totalled \$7.7 million, an increase of \$1.3 million over the previous year.

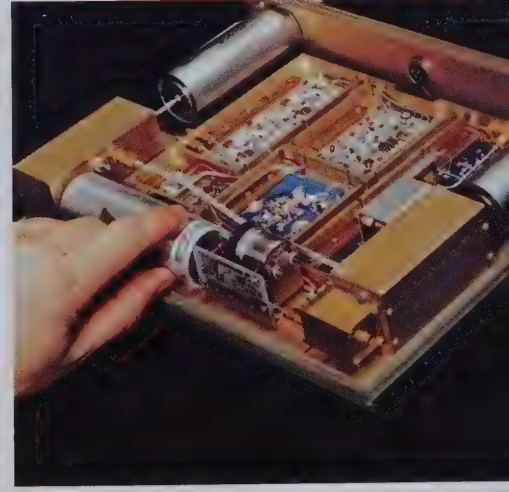
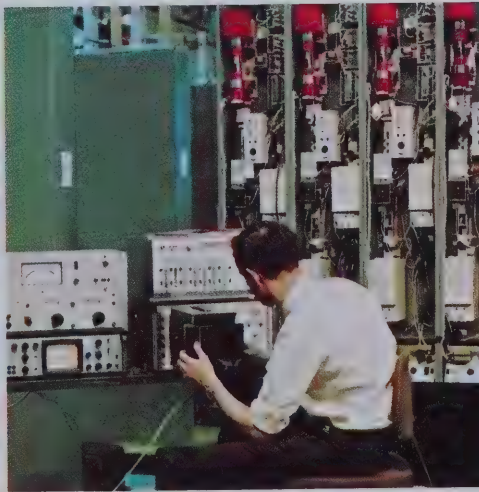
Another major project scheduled for completion this year is TOPS (traffic operator position systems). An integral part of SP-1 toll (long distance), TOPS uses a video screen to display call information to telephone operators. It effects a significant improvement in operating costs and improves the work environment over that of currently available switchboard systems.

New EMS products

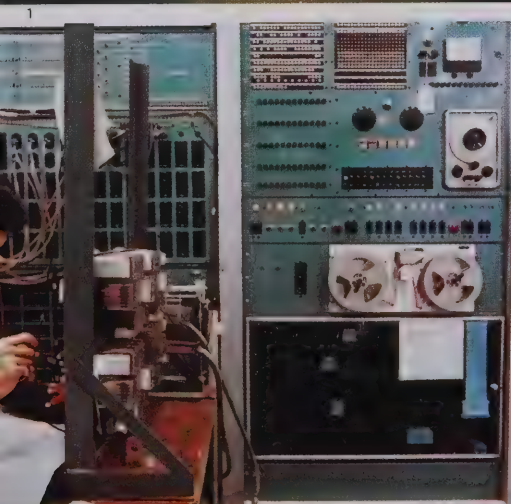
The capability of systems produced by the *Electro-Mechanical Switching Division* to satisfy customer requirements is being enhanced by the development, at an R&D expenditure of \$3.5 million, of new features and automatic network maintenance through the addition to these systems of mini computers. Typical of such developments is DACS (directory assistance charging system). Other computerized systems will permit telephone companies to adopt pricing tariffs based on



- 1 Close-up view of assemblies mounted on the electronics platform of a communications satellite.
- 2 Test panel for a member of the SP-1 family of computer-controlled electronic switching systems at Bramalea, near Toronto.
- 3 Plug-in printed circuit boards used in the VF-300 voice frequency transmission system.
- 4 Testing in Montreal of part of the RA-3 microwave radio system, prior to shipment.
- 5 Line repeater used in the LD-4 digital coaxial cable carrier system.



- 1 Mounting assemblies on the electronics platform for a communications satellite at Lucerne, Que.
- 2 Computerized testing of No. 5 crossbar switching equipment prior to shipment.
- 3 Counter sales at a Nedco Ltd. branch and warehouse.
- 4 Ultrasonic bonding of gold wire on a MOS chip at Microsystems International.
- 5 Communications by light under investigation at Bell-Northern Research in Ottawa.





5

use of equipment or services. The emerging markets for these features and products will ensure the continued growth of the 2,500 electro-mechanical switching systems now in service as well as open up new business opportunities.

Major satellite supplier

The company is firmly established, through the performance of its equipment, as a reliable supplier of communications satellite electronics. At Lucerne, Que., Northern Electric has the *only* commercial communications satellite electronic platform assembly line in the world. The company foresees the need for further satellite platforms to service domestic communications systems throughout the world.

Product developments in the *Transmission Division* include new concepts in voice frequency equipment which eliminate distribution frame wiring in telephone central offices and considerably reduce operating costs for telephone companies. In the PCM (pulse code modulation) and data areas, the division produced the LD-1, a repeated line digital system of communications that replaced existing systems and the LD-4, a long-haul heavy-route PCM coaxial carrier system which uses a 12-tube coaxial cable capable of carrying more than 20,000 channels. The LD-4 is the most advanced system of its kind in production in the world today.

In microwave radio, the RA-3 series was brought on stream and the company believes it to have the best parameters of any microwave radio available. Sales have been made in most provinces of Canada and an initial sale has been made in the U.S.

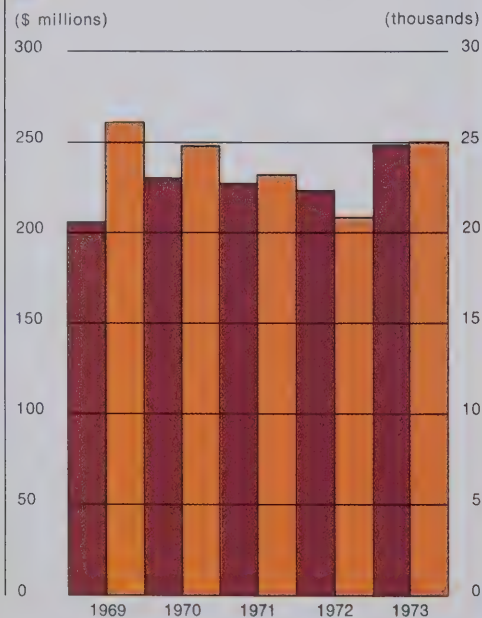
Review of operations (cont.)

Condensed Statement of Earnings

(year ended December 31)

EMPLOYMENT*

■ TOTAL EMPLOYMENT COST (\$ millions)
■ EMPLOYEES (thousands) December 31,



*Including all subsidiaries and Bell-Northern Research an affiliate.

(Microsystems International Limited, incorporated in 1969, is shown separately to highlight the effect of its operations on consolidated results for the year)

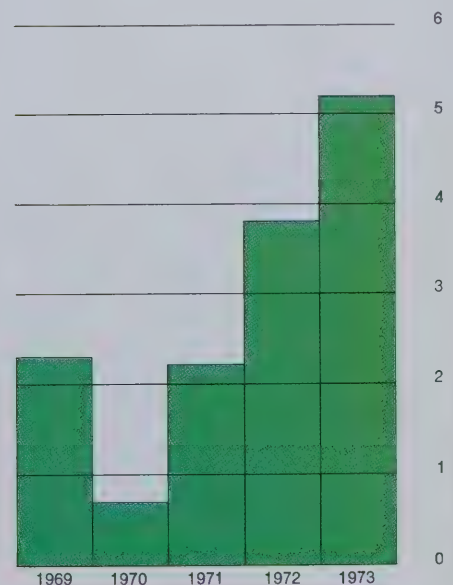
Northern Electric Company, Limited and Subsidiary Companies excluding Microsystems International Limited

	1973 (thousands of dollars)	1972 (thousands of dollars)
Sales	\$596,870	\$526,470
Cost of Sales including Selling, General and Administrative Expenses	496,942	452,951
Earnings from Operations before deducting Research and Development Expenses	99,928	73,519
Research and Development Expenses	29,092	23,901
	<u>70,836</u>	<u>49,618</u>
Interest Charges less Income from Short Term Investments	2,032	3,171
Earnings before Underlisted Items	68,804	46,447
Provision for Income Taxes	30,611	23,608
	<u>38,193</u>	<u>22,839</u>
Minority Interest in Net Earnings of Subsidiary Companies	122	11
Earnings before Extraordinary Items	38,071	22,828
Extraordinary Items	—	197
Net Earnings for the Year	<u>38,071</u>	<u>22,631</u>
Microsystems International Limited		
Net Loss for the Year (Excluding Minority Interest)	6,041	2,533
Consolidated Earnings for the Year	<u>\$ 32,030</u>	<u>\$ 20,098</u>

Consolidated Statement of Earnings

(year ended December 31)

	1973 (thousands of dollars)	1972 (thousands of dollars)
Sales	\$612,821	\$534,313
Cost of Sales	452,111	405,425
Gross Profit	160,710	128,888
Selling, General and Administrative Expenses (Note 2)	66,622	55,039
Earnings from Operations before deducting Research and Development Expenses	94,088	73,849
Research and Development Expenses	32,656	28,039
	61,432	45,810
 /Income from Short Term Investments	3,816	2,080
	65,248	47,890
 Interest Charges		
Long Term Debt	5,045	5,328
Bank and Other	1,545	308
	6,590	5,636
 Earnings before Underlisted Items	58,658	42,254
Provision for Income Taxes	30,611	23,608
	28,047	18,646
 Minority Interest in Net Loss of Subsidiary Companies	3,983	1,649
Earnings before Extraordinary Items	32,030	20,295
Extraordinary Items	—	197
Net Earnings for the Year	\$ 32,030	\$ 20,098
 Net Earnings per Share (Note 3)		
Before Extraordinary Items	\$1.35	\$0.86
After Extraordinary Items	\$1.35	\$0.85

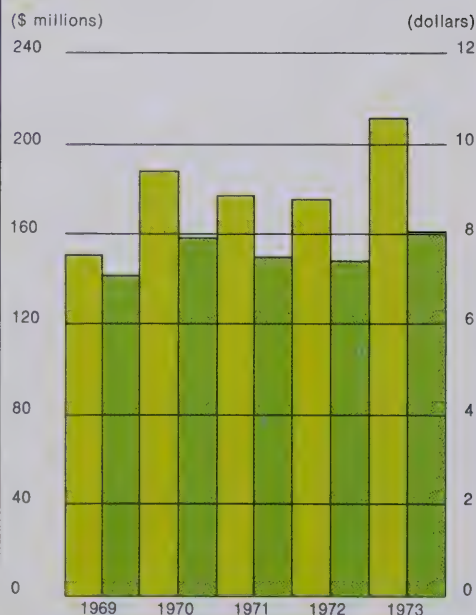
EARNINGS PER SALES DOLLAR
(cents)

Consolidated Balance Sheet

(as at December 31)

WORKING CAPITAL

■ TOTAL (\$ millions)
■ PER SHARE (dollars)



Assets

Current

	1973 (thousands of dollars)	1972 (thousands of dollars)
Cash	\$ 2,999	\$ 2,571
Short Term Investments at cost (approximates market value)	66,368	49,726
Accounts Receivable		
Affiliated Companies	34,840	32,504
Other	65,285	52,960
Inventories (Note 4)	177,295	112,545
Prepaid Expense	1,929	1,739
Deferred Income Taxes	11,339	8,064
	<u>360,055</u>	<u>260,109</u>

Investment in Affiliated Company at cost	6,487	5,549
--	-------	-------

Other Investments at cost	2,250	1,000
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Plant and Equipment (Note 5)	119,043	109,113
--	---------	---------

Deferred Charges and Goodwill

Unamortized Discount and Expenses on Long Term Debt	636	664
Goodwill (Note 6)	3,784	—
	<u>4,420</u>	<u>664</u>
	<u>\$492,255</u>	<u>\$376,435</u>

On behalf of the Board of Directors:

J. Angus Ogilvy, Q.C., Director

Herbert H. Lank, Director

Liabilities

Current

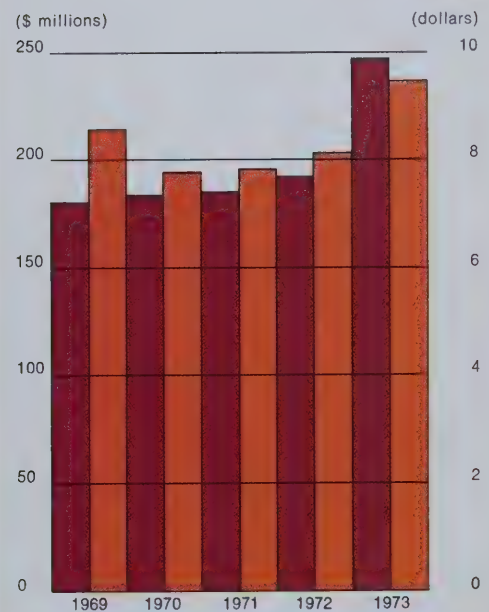
	1973 (thousands of dollars)	1972 (thousands of dollars)
Due to Banks	\$ 21,735	\$ 4,683
Accounts Payable and Accrued Liabilities		
Affiliated Companies	5,561	2,490
Other	100,428	59,495
Taxes Payable	17,425	15,809
Long Term Debt Instalments due within one year (Note 7)	4,544	2,383
	<u>149,693</u>	<u>84,860</u>

Long Term Debt (Note 7)	69,581	73,519
Deferred Income Taxes	20,958	20,501
Minority Interest in Subsidiary Companies	6,974	5,468
	<u>247,206</u>	<u>184,348</u>

Shareholders' Equity

Capital Stock (Note 3)	152,975	113,975
Contributed Surplus (Note 8)	2,866	7,357
Retained Earnings	89,208	70,755
	<u>245,049</u>	<u>192,087</u>
	<u>\$492,255</u>	<u>\$376,435</u>

SHAREHOLDERS' EQUITY



Consolidated Statement of Retained Earnings

(year ended December 31)

Consolidated Statement of Source and Application of Funds

(year ended December 31)

	1973 (thousands of dollars)	1972 (thousands of dollars)
Balance at Beginning of Year	\$ 70,755	\$ 62,438
Net Earnings for the Year	32,030	20,098
	<u>102,785</u>	<u>82,536</u>
Deduct: Dividends Paid	11,781	11,781
Commission and Expenses on issue of Capital Stock, less applicable		
Income Taxes of \$529	1,796	—
	<u>13,577</u>	<u>11,781</u>
Balance at End of Year	<u>\$ 89,208</u>	<u>\$ 70,755</u>
Source of Funds		
Operations:		
Net Earnings	\$ 32,030	\$ 20,098
Items not requiring funds		
Depreciation	16,587	13,047
Deferred Income Taxes	457	(395)
Other	100	39
	<u>49,174</u>	<u>32,789</u>
Minority Interest in Net Loss of Subsidiary Companies	<u>(3,983)</u>	<u>(1,649)</u>
	<u>45,191</u>	<u>31,140</u>
Proceeds from Long Term Debt	1,689	1,540
Proceeds from issuance of Capital Stock	39,000	—
Proceeds from sale of Plant and Equipment after reflecting gains and losses in Net Earnings	285	3,036
Capital contribution by Minority Shareholders in Subsidiary Companies	906	—
Minority Interest in acquired Subsidiary Company	92	—
	<u>87,163</u>	<u>35,716</u>
Application of Funds		
Expenditures for Plant and Equipment	26,802	11,617
Property previously held for sale and leaseback transferred to Plant and Equipment	—	7,922
Reduction of Long Term Debt	5,627	5,108
Dividends	11,781	11,781
Commission and Expenses on issue of Capital Stock	1,796	—
Investment in Affiliated Company	938	500
Other Investments	1,250	400
Goodwill (Note 6)	3,856	—
	<u>52,050</u>	<u>37,328</u>
Increase (decrease) in Working Capital	35,113	(1,612)
Working Capital at Beginning of Year	175,249	176,861
Working Capital at End of Year	<u>\$210,362</u>	<u>\$175,249</u>

1. Accounting Policies

The following summary of major accounting policies is presented to assist in the interpretation of the financial statements and other data presented in this report.

Principles of Consolidation

The consolidated financial statements include the accounts of Northern Electric Company, Limited ("the Company") and all subsidiary companies. Where stock ownership and control of subsidiary companies was acquired during the year 1973 the accounts of these companies are included in the consolidated statements of earnings, retained earnings and source and application of funds only to the extent of the income earned since the date of acquisition of control.

Depreciation

Depreciation is calculated on the straight line method using rates based on the expected useful lives of the respective assets.

Research and Development

Research and development expenses are charged to earnings in the years in which they are incurred.

Income Taxes

The tax allocation principle of providing for income taxes is followed. Reduction in income taxes relating to losses carried forward in subsidiary companies are not taken up in the accounts until the date of their realization is determined.

2. Remuneration of Directors and Officers

During the year 1973, there were 16 Directors of the Company whose aggregate remuneration as such was \$120,000. Certain of them were Directors of subsidiary companies; as such their aggregate remuneration was: from Microsystems International Limited ("Microsystems") \$4,000; from Nedco Ltd. \$2,000; from Nevron Industries Company Limited, \$3,000; and from Northern Telecom, Inc., \$1,000.

The Company had 26 Officers during 1973, and their aggregate remuneration as Officers was \$1,761,000. Four of the Officers served also as Directors of the Company.

3. Capital Stock

Under supplementary letters patent dated October 24, 1973, the authorized share capital of the Company was increased from 2,250,000 to 3,000,000 common shares without nominal or par value and from an aggregate value of \$175,000,000 to an aggregate value of \$225,000,000. The number of authorized shares was subdivided on a 13 for 1 basis to 39,000,000 shares. On December 18, 1973 the Company issued for cash 2,600,000 common shares at a price of \$15.00 per share increasing the number of issued shares to 26,162,500.

Earnings per share calculations are based on the weighted average number of shares outstanding during the year, after giving effect to the above subdivision.

4. Inventories

Inventories are valued at the lower of cost and net realizable value except for copper in raw materials and work-in-process which is valued on a base-stock method. At December 31, inventories consisted of the following:

	1973	1972
Raw materials	\$ 15,145,000	\$ 8,486,000
Work-in-process	100,868,000	61,486,000
Finished goods	61,282,000	42,573,000
	<u>\$177,295,000</u>	<u>\$112,545,000</u>

5. Plant and Equipment

	1973	1972
Cost		
Land	\$ 6,247,000	\$ 3,496,000
Buildings	60,565,000	51,648,000
Machinery and Equipment	194,735,000	182,384,000
	<u>261,547,000</u>	<u>237,528,000</u>
Less: Accumulated Depreciation		
Buildings	23,183,000	21,576,000
Machinery and Equipment	119,321,000	106,839,000
	<u>142,504,000</u>	<u>128,415,000</u>
	<u>\$119,043,000</u>	<u>\$109,113,000</u>

6. Goodwill

Goodwill represents the unamortized excess of the acquisition cost over the net assets of a subsidiary acquired in 1973 and is being amortized over a period of forty years. The amount charged to earnings for the year ended December 31, 1973 was \$72,000.

Notes to the Consolidated Financial Statements

(December 31, 1973)

7. Long Term Debt

Sinking Fund Debentures*	Authorized and Issued	Redeemed	Outstanding	
			Current Liability	Long Term Debt
4¾ % due November 1, 1976	\$20,000,000	\$13,107,000	\$ 893,000	\$ 6,000,000
5¾ % 1962 Series due December 15, 1982	20,000,000	7,085,000	915,000	12,000,000
6½ % Series C due April 15, 1986	15,000,000	3,736,000	—	11,264,000
9¾ % Series D due April 30, 1990	40,000,000	3,600,000	1,200,000	35,200,000
	<u>\$95,000,000</u>	<u>\$27,528,000</u>	3,008,000	64,464,000
Other			1,536,000	5,117,000
			<u>\$4,544,000</u>	<u>\$69,581,000</u>

Annual repayments required for each of the five years following 1973 are: 1974 \$4,544,000, 1975 \$4,750,000, 1976 \$9,486,000, 1977 \$4,486,000, 1978 \$3,459,000.

*Under the terms of the Trust Agreement (see Note 11) the interest rates reflect an increase of ¼ of 1 % per annum effective November 1, 1973.

8. Contributed Surplus

Contributed surplus represents the net excess amount paid by minority shareholders of Microsystems over their proportional interest acquired on the issue of common shares. During 1973 contributed surplus was reduced by \$4,491,000 as the result of the purchase by the Company of additional shares of Microsystems for \$15,000,000 and by minority shareholders for \$525,000 at unit prices in excess of the shareholders' equity per share at dates of issue.

9. Plan for Employees' Pensions

The latest actuarial evaluation of the Plan established an unfunded cost of \$47,590,000 at December 31, 1972. Improvements to the Plan, which became effective in 1973, are estimated by the Actuary to increase this amount by \$8,242,000. Unfunded costs, expected to be amortized over 25 years, are being funded by payments which are charged to operations in the years they are made.

10. Commitments

Material contractual obligations in respect of long term property leases amounted to \$23,595,000 at December 31, 1973. Related rentals incurred for the year ended December 31, 1973 amounted to \$2,201,000. The minimum amount applicable to the five years subsequent to December 31, 1973 is \$11,030,000.

11. Trust Agreement Restrictions

Under the terms of the Trust Agreement relating to its debentures as amended on October 5, 1973 the Company has covenanted not to declare or pay any dividends (other than stock dividends) or purchase, redeem or reduce any of its shares if, after giving effect to such action, the sum of the amounts paid or distributed for such purposes after December 31, 1972 will exceed the aggregate of:

- A) Consolidated net earnings of the Company and its subsidiaries earned after December 31, 1972;
- B) The net cash proceeds from the sale of its shares after December 31, 1972; and
- C) \$25,000,000.

As at December 31, 1973 \$82,453,000 was free from these restrictions.

12. Microsystems International Limited Canadian Government Conditional Grants

Under agreements between the Canadian Government and Microsystems for conditional grants, \$30,116,000 had been recorded as claims for certain research and development, preproduction and capital expenditures to December 31, 1973. Microsystems may claim additional grants totalling \$487,000 for research and development expenditures and \$5,347,000 in respect of capital expenditures. Should the cumulative earnings of Microsystems (after deduction of losses) before income taxes on semiconductor products except discrete components be in excess of 10% of the cumulative sales of such products, then these grants will be repayable, without interest, from the cumulative earnings in excess of 10% of such sales. Such grants are not reflected as a liability in the consolidated financial statements.

The Shareholders,
Northern Electric Company, Limited

We have examined the consolidated balance sheet of Northern Electric Company, Limited and its subsidiaries as at December 31, 1973 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1973 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Auditors' Report

A handwritten signature in black ink, appearing to read "Louise Ross".

Chartered Accountants

Montreal, Que.
February 4, 1974.

Consolidated Ten-Year Review

	1973	1972	1971
Earnings and Related Data			
Total Sales	612.8	534.3	576.3
Sales of Company Manufactured Products	517.7	451.5	475.9
Depreciation on Plant and Equipment	16.6	13.0	11.7
Research and Development Expenses	32.7	28.0	29.7
Interest Charges	6.6	5.6	5.7
Provision for Income Taxes	30.6	21.0	14.5
Net Earnings	32.0	20.1	12.6
Earnings per Sales Dollar (Cents)	5.2	3.8	2.2
Earnings per Share (Dollars)	1.35	0.85	0.54
Dividends per Share (Dollars)	0.50	0.50	0.50
Financial Position at December 31			
Working Capital	210.4	175.2	176.9
Plant and Equipment (At Cost)	261.5	237.5	230.0
Accumulated Depreciation	142.5	128.4	124.4
Capital Expenditures	26.8	19.5	21.9
Long Term Debt	69.6	73.5	77.1
Shareholders' Equity	245.0	192.1	183.8
Employees* (December 31)	25,073	20,787	23,230
Employment Costs*			
Payroll	219.7	199.0	205.5
Pension and Other Employment Costs	29.5	23.2	22.8
Total	249.2	222.2	228.3

*Includes all subsidiaries and
Bell-Northern Research Limited, an affiliate.

1970	1969 (millions of dollars)	1968	1967	1966	1965	1964
563.6	482.5	426.3	403.3	400.2	358.1	328.1
463.9	390.7	345.3	308.1	284.1	249.6	232.3
12.4	10.5	9.9	8.6	7.9	6.4	7.4
31.0	25.9	21.7	23.8	22.6	16.4	13.0
5.1	3.6	2.7	2.7	2.7	1.9	1.8
5.3	9.8	5.6	—	.7	2.3	8.8
4.1	11.0	9.4	2.3	10.1	8.6	9.9
.7	2.3	2.2	.6	2.5	2.4	3.0
0.17	0.52	0.49	0.12	0.70	0.65	0.75
0.38	0.50	0.50	0.50	0.50	0.50	0.44
188.3	150.1	122.4	121.8	118.6	93.1	92.5
233.2	214.9	194.5	184.6	167.2	146.3	132.4
125.3	115.5	108.3	100.7	93.9	87.7	82.4
20.9	24.2	12.4	19.7	23.0	15.3	12.8
79.0	41.9	43.0	45.0	47.0	36.2	37.7
183.0	180.4	145.0	140.8	128.6	100.8	95.4
4,986	26,032	23,682	22,557	23,864	19,632	18,066
211.0	190.3	162.4	146.3	134.3	110.9	99.9
20.6	14.8	13.0	10.8	9.7	8.2	7.3
231.6	205.1	175.4	157.1	144.0	119.1	107.2

New plants were being built and others expanded in 1973 by Northern Electric companies in three countries: 1. Lachine, Que. 2. St. Laurent, Que. 3. Galway, Eire. 4. Butner, North Carolina. 5. Mountain View, California. 6. Lachine, Que. 7. Port Huron, Michigan. 8. Amherst, N.S. 9. Concord, New Hampshire.



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Principal products

Subscriber apparatus

Dial key and push button telephones
Contempra telephones
Centurion coin telephones
Logic series of telephones
Companion handsfree units

Business communications

Data systems
Key intercom systems
Cordless switchboards
Manual and private automatic branch exchanges (PABX)
Key telephone systems designed for small businesses
Pulse 80

Central office switching equipment

Step-by-step electro-mechanical systems
Crossbar systems
SP-1 family of stored program computer controlled electronic switching systems

Cable and Outside plant

Power cable
Telephone wires
Composite coaxial cables
Switchboard cables
Pulp-insulated exchange cables
Polyethylene insulated cables
Terminals and closures
Loading devices
Protectors
Heat coils
Backboards and cases

Transmission equipment

Multiplex (MA-5)
Microwave radio (RA-3)
Cable carrier and line equipment
Digital coaxial cable carrier systems (LD-1, LD-4)
Communications satellite electronics

Northern Electric manufacturing centers

(Existing at year-end, or under construction)

Amherst, N.S.
Halifax, N.S.
Saint John, N.B. (2)
Lachine, Que. (4)
LaSalle, Que.
Lucerne, Que.
Montreal, Que.
Montreal North, Que.
St. Laurent, Que.
Belleville, Ont.
Bramalea, Ont.
Kingston, Ont.
London, Ont.
Toronto, Ont.
Winnipeg, Man.
Regina, Sask.
Calgary, Alta.

Manufacturing centers of subsidiaries

Microsystems International Limited
Ottawa, Ont.
Penang, Malaysia

Northern Telecom, Inc.
Butner, North Carolina
Concord, New Hampshire
Mountain View, California
Port Huron, Michigan

Northern Electric Company (Ireland) Limited
Galway, Eire

Northern Electric Telekomünikasyon, A.S.
Istanbul, Turkey

Principal products and manufacturing centers

